

**LAW AND BUSINESS OF
THE ENTERTAINMENT
INDUSTRIES**

LAW AND BUSINESS OF THE ENTERTAINMENT INDUSTRIES

Fourth Edition

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CONTENTS

<i>Acknowledgments</i>	xvii
<i>Introduction</i>	1
Global Overview	1
Standards Governing Preliminary Injunctions, Motions for Summary Judgment, and Attachments	6
PART ONE	
CHAPTER 1	
<i>Representing Talent</i>	13
1.1 Introduction: A Business of Intermediaries	13
1.2 Attorneys	15
1.2.1 Ethical Considerations	16
1.2.1.1 Percentage Fees	16
1.2.1.2 Multiple Client Representation	17
1.2.1.3 Participation in Business Deals with Clients	18
<i>Croce v. Kurnit</i>	19
<i>McCauley Music Ltd. v. Solomon</i>	26
1.2.2 Additional Hazards for Counsel	29
1.3 Agents and Managers	31
1.3.1 Union Regulation of Agents	31
1.3.2 State Regulation of Agents	32
1.3.2.1 New York General Business Law	32
<i>Pine v. Laine</i>	36
<i>Mandel v. Leibman</i>	37

1.3.2.2 California Labor Code	39
<i>Buchwald v. Superior Court of San Francisco</i>	45
<i>Pryor v. Franklin</i>	48
<i>Barr v. Rothberg</i>	50
<i>Park v. Deftones</i>	52
<i>Chinn v. Tobin</i>	56
1.4 Business Managers	59
<i>ABKCO Music, Inc. v. Harrisongs Music, Ltd.</i>	59
CHAPTER 2	
<i>Talent Contracts</i>	67
2.1 Introduction	67
2.2 Contracts with Minors	71
2.2.1 California Provisions on Minors	72
2.2.2 New York Provisions on Minors	72
N.Y. Arts and Cultural Affairs Law §35.03	73
<i>Scott Eden Management v. Andrew Kavovit</i>	74
2.3 Contract Duration	78
2.3.1 The California Seven-Year Statute	78
Labor Code §2855	78
<i>De Haviland v. Warner Brothers Pictures</i>	79
<i>Ketcham v. Hall Syndicate, Inc.</i>	83
2.3.2 Statutory Termination Rights in California	90
<i>Goudal v. Cecil B. De Mille Pictures Corp.</i>	90
<i>Warner Brothers Pictures, Inc. v. Bungarner</i>	95
2.4 Contract Formality: Availability of Injunctive Relief	101
2.4.1 The New York Experience	102
<i>Metro-Goldwyn-Mayer, Inc. v. Scheider</i>	102
2.4.2 California Injunction Statutes	104
Civil Code §3390	105
Civil Code §3423	105
The Newly Revised California Injunction Statute	106
<i>MCA Records, Inc. v. Newton-John</i>	108
<i>Motown Record Corporation v. Brockert</i>	110
2.5 Credit Issues	112
2.5.1 By Contract	112
<i>Cleary v. News Corp.</i>	113
<i>Gold Leaf Group, Ltd. v. Stigwood Group, Ltd.</i>	116
<i>Tamarind Lithography Workshop, Inc. v. Sanders</i>	117
2.5.2 By Statute/Common Law	122

2.5.2.1 Right to Claim Credit	123
<i>Vargas v. Esquire, Inc.</i>	123
<i>Smith v. Montoro</i>	128
<i>Lamothe v. Atlantic Recording Corporation</i>	133
<i>Cleary v. News Corp.</i>	135
Artists Visual Rights Act of 1990	139
2.5.2.2 Right to Disclaim Credit	140
<i>Shostakovich v. Twentieth Century-Fox Film Corp.</i>	140
<i>Follett v. Arbor House Publishing Co., Inc.</i>	143
<i>King v. Innovation Books</i>	149
Artists Visual Rights Act of 1990	156
CHAPTER 3	
<i>Acquisition of Rights: Rights of Personality and Identity</i>	157
3.1 Introduction	157
3.2 Personal Rights: Defamation	157
3.2.1 In General	157
3.2.2 Fact versus Opinion	158
3.2.3 Falsity	159
<i>Clark v. American Broadcasting Companies</i>	159
<i>Masson v. New Yorker Magazine, Inc.</i>	164
3.2.4 Of and Concerning	171
<i>Springer v. Viking Press</i>	171
<i>Bindrim v. Mitchell</i>	174
3.2.5 Damage to Reputation	177
3.2.6 Defensive Aspects	178
3.2.6.1 Prior Restraint	178
3.2.6.2 Public Officials/Public Figures	178
3.2.6.3 Burden of Proof	180
3.2.6.4 Judicial Resistance Toward Alternative Remedies	180
3.3 Personal Rights: Privacy	180
3.3.1 Introduction: Common Law	180
3.3.1.1 The First Cases: <i>Roberson</i> and <i>Pavesich</i>	182
<i>Pavesich v. New England Life Insurance Co.</i>	182
3.3.1.2 False Light	186
3.3.1.3 Disclosure of Embarrassing Private Facts	186
<i>Diaz v. Oakland Tribune, Inc.</i>	186
3.3.2 Statutory Protection	191
NY Civil Rights Law §§50–51	192
<i>Spahn v. Julian Messner, Inc.</i>	192
3.3.3 Defensive Aspects	194

<i>Lerman v. Flynt Distributing Co.</i>	195
<i>Bernstein v. National Broadcasting Company</i>	202
3.4 Personal Rights: Publicity	212
3.4.1 At Common Law	213
<i>Zacchini v. Scripps-Howard Broadcasting Co.</i>	214
3.4.2 Statutory Recognition	217
California Civil Code §3344	218
3.4.2.1 Other Statutory Enactments on Right of Publicity	219
Tenn. Code. Ann. Ch. 945, §§47-25-1101 and 1108	219
Ky. Rev. Stat., Ch. 391	221
Fla. Stat. Ann. Sec. 540–08	221
Indiana Statutes, Title 32, Art. 13, Ch. 1	223
3.4.3 Additional Recognition of the Right at Common Law	226
<i>Motschenbacher v. R. J. Reynolds Tobacco Co.</i>	226
<i>Midler v. Ford Motor Company</i>	229
<i>Waits v. Frito-Lay</i>	231
<i>White v. Samsung Electronics America</i>	237
3.4.4 Post-Mortem Availability	243
3.4.4.1 At Common Law	243
3.4.4.2 Under Statute	244
California Civil Code §3344.1	244
3.4.4.3 Conflicts Problems	247
3.4.5 Defensive Aspects	248
3.4.5.1 Public Figures/Newsworthiness	248
<i>New Kids on the Block v. News America Publishing</i>	248
3.4.5.2 Advertising and Promotion	250
<i>Namath v. Sports Illustrated</i>	251
<i>Montana v. San Jose Mercury News</i>	252
3.5 Personal Rights: The Lanham Act and Other Federal Legislation	256
3.5.1 Introduction: A National Remedy	256
15 U.S.C. St. 1125	256
3.5.2 Use of Section 43(a) by Celebrities and Entities	258
<i>Allen v. National Video, Inc.</i>	258
3.5.3 Defensive Matters	266
<i>Rogers v. Grimaldi</i>	266
<i>Pump, Inc. v. Collins Management</i>	275
CHAPTER 4	
<i>Acquisition of Rights: Ideas and Other Property</i>	281
4.1 Ideas	281

4.1.1 Copyright Law: Idea versus Expression	282
<i>Nichols v. Universal Pictures Corp.</i>	282
<i>Zambito v. Paramount Pictures</i>	286
<i>Universal City Studios, Inc. v. Film Ventures International, Inc.</i>	290
4.1.2 Idea Submissions	293
4.1.2.1 Implied Contract	294
<i>Desny v. Wilder</i>	294
4.1.2.2 Confidential Relationship	305
<i>Blaustein v. Burton</i>	305
<i>Murray v. National Broadcasting Company, Inc.</i>	315
4.2 Negotiated Acquisitions	322
4.2.1 The Scope of Acquired Rights: By Contract	322
<i>Landon v. Twentieth Century-Fox Film Corp.</i>	323
<i>Rey v. Lafferty</i>	329
4.2.2 The Scope of Acquired Rights: Legally Imposed Limitations	337
Copyright Act of 1976, §115(a)(1)	337
<i>Recording Industry Ass'n of America v. Copyright Royalty Tribunal</i>	338
Copyright Act of 1976, §203	339
Copyright Act of 1976, §304(c)	339
<i>Miller Music Corp. v. Charles N. Daniels, Inc.</i>	340
<i>Stewart v. Abend</i>	342
 CHAPTER 5	
<i>Contract Performance, Exploitation Obligations, and Limitations on Exploitation</i>	353
5.1 Delivery Standards	353
<i>Random House, Inc. v. Gold</i>	354
<i>Harcourt Brace Jovanovich, Inc. v. Goldwater</i>	357
<i>Doubleday & Company, Inc. v. Curtis</i>	363
5.2 Exploitation Obligations	369
5.2.1 The Company as (Non)Fiduciary	369
<i>Rodgers v. Roulette Records, Inc.</i>	369
<i>Mellencamp v. Riva Music Ltd.</i>	373
5.2.2 The Obligation to Exploit	378
<i>Wood v. Lucy, Lady Duff-Gordon</i>	378
<i>Zilg v. Prentice-Hall, Inc.</i>	379
<i>Third Story Music v. Waits</i>	386
5.3 Limits on Exploitation	389
5.3.1 Creative Control	389
<i>Parker v. Twentieth Century-Fox Film Corporation</i>	390

5.3.1.1 The <i>Cimino</i> and <i>Beatty</i> Arbitrations	392
5.3.2 Mutilation	396
<i>Gilliam v. American Broadcasting Companies</i>	396
<i>Chesler v. Avon Book Division</i>	400
<i>Bobbs-Merrill Co., Inc. v. New American Library</i>	402
5.3.3 Censorship and Regulation of Content and Attendance	404
<i>Skywalker Records Inc. v. Navarro</i>	404
<i>Cinevision v. City of Burbank</i>	414
5.3.4 Private Actions Against Creators and Distributors	419
<i>Olivia N. v. National Broadcasting Company, Inc.</i>	420
<i>Byers v. Edmondson</i>	424
 CHAPTER 6	
<i>Remedies</i>	431
6.1 Self-Help	431
<i>Dodd, Mead & Company, Inc. v. Lilienthal</i>	431
6.2 Rescission	435
<i>Nolan v. Williamson Music, Inc.</i>	435
<i>Nolan v. Sam Fox Publishing Company, Inc.</i>	438
<i>Peterson v. Highland Music, Inc.</i>	438
6.3 Injunction	440
<i>Machen v. Johansson</i>	442
<i>Vanguard Recording Society, Inc. v. Kveskin</i>	447
<i>American Broadcasting Cos., Inc. v. Wolf</i>	450
6.4 Damages	458
<i>Freund v. Washington Square Press, Inc.</i>	458
6.5 Contracts of Adhesion/Unconscionability: The <i>Buchwald</i> Case and After	464
<i>Art Buchwald v. Paramount Pictures Corp.</i>	465
<i>Batfilm Productions, Inc. v. Warner Bros. Inc.</i>	479
6.6 The U.K. “Restraint of Trade” Cases	484
6.6.1 The Earlier Cases	484
<i>A. Schroeder Music Publishing Co. v. Macaulay</i>	484
<i>Elton Hercules John v. Richard Leon James</i>	489
6.6.2 The George Michael Case	496
<i>Georgios Panayiotou v. Sony Music Entertainment (U.K.) Limited</i>	496
6.7 Bankruptcy	499
6.7.1 The Availability of Bankruptcy Protection	500
<i>In the Matter of Noonan</i>	500
<i>In re Carrere</i>	505
6.7.2 The Consequences of Bankruptcy	508

<i>Waldschmidt v. CBS, Inc.</i>	508
6.7.3 Protective Registration	513
<i>In re Peregrine Entertainment, Ltd.</i>	513
6.8 Arbitration	519

PART TWO

CHAPTER 7

<i>Literary Publishing</i>	525
7.1 Introduction	525
7.2 The Business of Literary Publishing	525
7.3 The Scope of Literary Publishing Contracts	528
7.3.1 Paperback Licensing	529
7.3.2 Foreign Licensing	529
7.3.3 Merchandise Licensing	530
7.3.4 Motion Picture/Television Licensing	530
7.3.5 Other Media Licensing	531
7.3.6 Author-Literary Agent	531
7.4 Publisher-Author Contract in Detail	532
7.4.1 Rights Granted and Assigned	532
7.4.2 Delivery of Satisfactory Manuscript	532
7.4.3 Noncompete Clause	533
7.4.4 Publication	534
7.4.5 Copyright	534
7.4.6 Royalties and Other Payments	535
7.4.7 Warranties and Indemnities	535
7.4.8 Future Revisions	536
7.4.9 Option for Next Work	536
7.4.10 Other Provisions	537
7.5 The Impact of Custom and Usage	537
<i>Stein and Day, Incorporated v. Morgan</i>	540
<i>Tasini v. The New York Times Company, Inc.</i>	541
7.6 The “Next Book” Option	545
<i>Pinnacle Books, Inc. v. Harlequin Enterprises, Ltd.</i>	545

CHAPTER 8

<i>Music Publishing</i>	549
8.1 An Overview of the Music Publishing Industry	549
8.2 Sources of Revenue	552
8.2.1 Small Performance Fees	553
8.2.2 Co-publishing Agreements	554
8.3 Principal Types of Agreements	554

8.3.1	Songwriter Agreement	554
8.3.2	Administration Agreement	555
8.3.3	Collection Agreement	555
8.3.4	Foreign Subpublishing Agreement	555
8.4	Negotiation of a Co-publishing Agreement	556
8.5	Computation of Foreign Income (“Receipts” versus “At the Source”)	558
8.6	Typical Requirements and Controls	559
8.6.1	Administrative and Creative Controls	559
8.6.2	The Publisher’s Obligations	560
8.6.2.1	The Obligation to Exploit	560
8.6.2.2	The Obligation to Account and Pay	561
	<i>In re Waterson, Berlin & Snyder Co.</i>	561
8.7	Performing Rights	566
8.7.1	Blanket Licensing	566
	<i>Buffalo Broadcasting Co. v. ASCAP</i>	566
8.7.2	Split Licensing	577
	<i>U.S. v. ASCAP, In re Fox Broadcasting Co.</i>	577
8.8	Sampling	578
	<i>Grand Upright Music, Ltd. v. Warner Bros. Records, Inc.</i>	578
CHAPTER 9		
	<i>Sound Recordings</i>	581
9.1	Development of the Industry	581
9.2	Contracts in the Record Industry	585
9.2.1	Artist Recording Agreement	586
	Recording Artist Royalty Calculations: Why Gold Records Don’t Always Yield Fortunes (Second Edition)	590
9.2.2	Producer Agreement	600
9.2.3	Mechanical License	601
9.2.4	Film/TV Master Use License	602
9.2.5	Master Purchase Agreement	602
9.2.6	Custom Label Agreement; Pressing and Distribution Agreement	603
9.2.7	Special Products Agreements	604
9.3	Record Label Breach	605
	<i>Phillips v. Playboy Music, Inc.</i>	605
9.4	Contract Term: The Label Option	607
	Using Option Clauses in Record Deals	607
9.5	Signing Multiple Group Members to a Single Recording Contract	609
	<i>Forrest R.B. Enterprises, Inc. v. Capricorn Records, Inc.</i>	609
9.6	Interference with Contract and Inducement to Breach	611

<i>Roulette Records, Inc. v. Princess Production Corp.</i>	612
<i>Bonner v. Westbound Records</i>	616
<i>Westbound Records, Inc. v. Phonogram, Inc.</i>	620
9.7 Ownership and Protection of Performers' Names	621
CHAPTER 10	
<i>Films</i>	625
10.1 The Changing Scene in the Motion Picture Industry	625
10.2 Producing Films	628
10.2.1 The Evolution of the Studio Model	628
10.2.2 Producing Films: The Studio Model	629
10.2.2.1 Acquisition of Underlying Rights	629
10.2.2.2 The Production/Financing/Distribution Deal	630
10.2.2.3 Dealing with Directors, Actors, and Writers	632
10.2.2.4 Gross Receipts/Net Profits	633
10.2.3 Producing Films: The Independent Model	635
10.2.3.1 Financing Independent Films	636
10.2.3.2 Insurance	637
10.2.3.3 Completion Guaranty Bonds	638
10.2.4 The International Market	638
10.2.5 Ancillary Markets	640
10.3 Distribution	641
10.3.1 Dealing with Theatres	641
10.3.2 Antitrust Issues in Distribution: Studio Issues	642
<i>United States v. Paramount Pictures, Inc.</i>	643
10.3.3 Exhibitor Violations: Splitting Arrangements	651
<i>United States v. Capitol Service, Inc.</i>	651
CHAPTER 11	
<i>Television</i>	657
11.1 The Television Business	657
11.1.1 The Changing Face of the Television Industry	657
11.1.2 Broadcast Television	659
11.1.3 Cable and Satellite Television	660
11.2 Creating and Acquiring Programming	662
11.2.1 Dealmaking in the Television Industry	662
11.2.2 The Development Deal	663
11.2.3 Deficit Funding	664
11.3 Syndication	664
11.4 The Ratings Game	666
11.5 International Markets	668
11.6 Ancillary Markets	668

11.7	Federal Communications Commission	669
11.7.1	Licensing	669
11.7.2	Control of Broadcast Television	670
11.7.3	Controlling Cable Television	670
11.8	Issues in Television Distribution	671
11.8.1	Antitrust: Block Booking	671
	<i>United States v. Loew's, Inc.</i>	671
	<i>Metromedia Broadcasting Corp. v. MGM/UA Entertainment Co.</i>	675
11.8.2	Antitrust: Geographical Restrictions	680
	<i>Ralph C. Wilson Industries, Inc. v. American Broadcasting Companies, Inc.</i>	680
11.8.3	Piracy: Unlawful Interception and Retransmission of Signals	684
	<i>Home Box Office, Inc. v. Pay TV of Greater New York, Inc.</i>	684
CHAPTER 12		
	<i>The Internet, Multimedia, and Emerging Technologies</i>	689
12.1	Introduction	689
12.2	Personal Jurisdiction	692
	<i>Bensusan Restaurant Corp. v. King</i>	692
	<i>Zippo Manufacturing Co. v. Zippo Dot Com, Inc.</i>	696
12.3	Regulating Content and Controlling Distribution of Information Online	702
12.3.1	Censorship	702
	New Media, the Internet, and the Law	702
12.3.2	Control of Access: Framing and Linking	707
12.4	Liability of Internet Service Providers	707
12.4.1	Defamation	707
	<i>Zeran v. America Online, Inc.</i>	708
12.4.2	Privacy	713
12.4.2.1	Consumer Profiles	713
12.4.2.2	Spamming	714
12.5	Copyright Infringement	715
12.5.1	Digital Millennium Copyright Act	715
12.5.2	The Impact of Internet-Specific Technologies	716
12.5.2.1	MP3	716
	<i>UMG Recordings, Inc. v. MP3.Com, Inc.</i>	717
	<i>A&M Records, Inc. v. Napster, Inc.</i>	720
12.5.2.2	DeCSS	736
12.5.2.3	iCrave TV	736
12.6	Trademark Infringement	737
12.6.1	Internet Domain Names and Metatags	737

<i>Brookfield Communications, Inc. v. West Coast Entertainment Corp.</i>	737
12.6.2 Cybersquatting	755
12.6.3 Other Internet and New Technology Litigation Involving Copyright, Trademark, and Unfair Competition	757
<i>Playboy Enterprises, Inc. v. Frena</i>	757
<i>Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.</i>	761
12.7 Agreements Entered into over the Internet	765
What Constitutes an Enforceable Agreement Entered into over the Internet?	765
CHAPTER 13	
<i>Theatre</i>	773
13.1 The Theatre Business	773
13.1.1 Broadway Producers, Investors, and Theatre Owners	777
13.1.2 Alternatives to Broadway	778
13.1.3 The Prospective Audience	779
13.2 The Approved Production Contracts	780
MBPC: Requiescat in Pace—APC: Quo Vadis?	781
13.3 Business Structures of Theatrical Ventures	785
13.4 Special Problems in Theatrical Agreements	785
<i>Gennaro v. Rosenfield</i>	786
<i>Childress v. Taylor</i>	787
<i>Wasserman v. Leigh</i>	793
<i>Sacks v. Rubin</i> 6/15/90	799
<i>Sacks v. Rubin</i> 12/11/91	800
<i>Table of Cases</i>	803
<i>Index</i>	831

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INTRODUCTION

GLOBAL OVERVIEW

The entertainment industries (for the purposes of this work, theatrical films, television, records, music publishing, literary publishing, the theatre, and “new media”) continue to expand briskly all over the world. Indeed, the entertainment industries are one of the few areas in which the United States enjoys a substantial positive balance of trade. According to a 1999 study by the International Intellectual Property Alliance, “the U.S. copyright industries contribute more to the nation’s economy and employ more workers than any single manufacturing sector.” In the United States, the European Union, and other more developed nations, the curve of expansion has flattened to the low- and medium-single digit level for the most part (although television has boomed in Europe with the relaxation of governmentally imposed restraints on entry and theatrical film ticket sales are increasing as theatres are upgraded and multiplexed in various countries). Markets such as Eastern Europe, Latin America, and Asia, once of secondary interest to the entertainment industries because of low levels of economic growth and/or nonexistent or weak legal protection for copyright and other intellectual property, are now emerging as the areas of greatest potential growth. Moreover, the worldwide growth in the use of computers makes global the expanded opportunities and accompanying problems confronted by those doing business on the Internet.

Developments in the United States

Continuing Consolidation

Entertainment firms continue to consolidate, a trend which has accelerated as the various technologies utilized by entertainment industries continue to converge. Mega-mergers such as those between Time Inc. and Warner Communications Inc. at the start of the 90s, then The Walt Disney Company with ABC

in the mid-90s, have been followed by the merger between existing entertainment giants Viacom (MTV, Showtime, The Movie Channel, Paramount Pictures, Blockbuster Video and Music) and CBS Inc. (CBS Network, Infinity Broadcasting) and by mergers between entertainment “wannabes” such as AT&T and cable majors TeleCommunications, Inc. and MediaOne and other telephone and cable companies who seek to provide a wide range of information and entertainment services via cable, as increases in modem speed and expanding bandwidth continue to open up new possibilities for delivering telephone, television and computer services via a single provider. In January 2001, history’s biggest merger (entertainment or non-entertainment) was completed: AOL and Time Warner.

In the recording field, the acquisition of PolyGram by Universal has resulted in a powerhouse distribution engine whose combined labels (Uni, MCA, PolyGram, A&M, Island, Mercury, and Interscope, among others) now account for more than 25% of the U.S. market. The number two and four companies, BMG and EMI, are at this writing in the process of creating a joint venture which will control some 20% of the U.S. market.

Because of the market power of the conglomerates, the battle for “shelf space” has accentuated. Production and marketing budgets at major film studios, for example, have escalated (to an average of \$54 million in 1998) as the result of competition for top box office stars such as Jim Carrey, Tom Hanks, Tom Cruise, Julia Roberts, and Harrison Ford, the need for ever-more-spectacular special effects, and the need to capture the attention of potential attendees by booking thousands of screens and spending an average of \$30 million in 1998 to advertise and promote the average U.S. studio theatrical release. Similarly eye-popping cost increases have occurred in records, music publishing, literary publishing, and the theatre.

New Players

With bigness comes smallness. Just as specialty stores and boutiques of various types have thrived despite the decades-old head start of traditional department stores, so non-traditional entertainment firms have stepped forward to fill perceived gaps in the service provided to the public by the “majors.”

In theatrical films, Miramax, based in New York, made an early name for itself in the “art house” film field. While still independently run, it is now owned and financed by The Walt Disney Company, and, with films such as “Pulp Fiction,” “The English Patient,” and “Shakespeare in Love,” Miramax has accounted for more Academy Awards® during the 1990s than any other studio or production company. Artisan’s “The Blair Witch Project,” produced for about \$1 million, had domestic ticket sales of \$175 million, a figure equalled or exceeded by only a handful of the two hundred or so films released by the major studios.

In records, a first album by an artist named Creed, released by a little company called Wind-Up, opened at the #1 position on the Billboard Hot 200 LP chart, fueled by a prerelease campaign focused on Internet promotion. Other independently owned and/or administered companies, such as LaFace Records, Bad Boy Records, and Curb Records, attained major chart and sales successes supported by funding and/or distribution from the “majors.”

In some cases, this phenomenon is due to the fact that the majors cannot afford to gear up to produce or market “art house” films and records, despite the occasionally eye-popping sales levels achieved by low-budget “sleepers.” In some cases, the success of smaller companies is due to the artistic vision and com-

mercial imagination of entrepreneurial individuals who have rejected the more bureaucratic processes which tend to characterize very large organizations.

The Internet has provided excellent examples of start-up companies which have carved out niche markets for themselves (and floated initial public stock offerings at occasionally startling prices), although many of them (e.g., Amazon.com) have yet to earn any money and many have gone under (e.g., Digital Entertainment Network). For smaller record labels, a young company such as Emusic.com provides distribution which would be unavailable through the majors. At this writing, Emusic.com distributes more than 150 different labels.

If prior history is any guide, acquisitions and shakeouts will follow at some point. Just as the major record companies have already bought up such independents as Relativity (Sony) and Priority (EMI), it is probable that some of the newer independents will similarly wind up affiliated with the conglomerates. By the same token, it is likely that many of the Internet music sites (at this writing, an estimated 80,000 in the U.S. alone) will combine with larger entities or disappear. Nonetheless, economics and creativity will always fuel the entry of new players in the entertainment industries.

Developments in the Rest of the World

The State of the International Market

The importance of world markets cannot be minimized: According to the International Intellectual Property Alliance, the nation's copyright industries (films, records, publishing, software) became the leading U.S. export in 1997 with sales of \$60.8 billion. Worldwide audiovisual revenues are expected to increase by about 70% on average for the period from 1995 to 2005, and the European Commission believes that Europe's market share will increase from 13% in 1995 to 21% in 2005.

Europe

Since the Maastricht Treaty, the European Union has become increasingly interconnected. The common currency, the "Euro," was introduced as a banking concept in 1999, and will replace the currency of most member countries in 2002. Citizens of member states are already free to travel between and among other member states with virtually no interference by customs or immigration personnel. Companies like France's Canal Plus, Britain's BSKyB, Italy's Fininvest and Germany's Bertelsmann and KirchGroup frequently make deals with each other and with other entities outside of their own countries. Such arrangements, together with various funds established by national and state governments to support local productions and international co-productions pursuant to bilateral and multinational treaties, have the potential to support an explosion of local production, which may well reduce the market for U.S. television and film products in the countries affected. In December 1999, the EU Commission announced its "Media Plus" program, which would spend \$348.3 million on European film and television productions from inception to 2005.

While ethnic, linguistic and religious differences still present obstacles to a single, unified entertainment market, the recent legal changes within the EU and the growing "clout" of European conglomerates promises increasing competition for U.S. producers and distributors.

The situation in the former Soviet Union and the other countries which formerly made up the Soviet Bloc varies from country to country. For example, Hungary and Poland have active legitimate entertainment industries, while piracy is rampant in Poland and Russia and the International Federation of the Phonographic Industry has identified Bulgaria as a major center of pirate CD production.

Latin America

Spurred in part by an increasing commitment to copyright protection, Mexico, Brazil, Argentina and several other Latin American countries have experienced substantial growth in their entertainment industries. Although the Argentine economy fell into recession as the government attempted to enforce austerity measures to combat inflation, and the economies of Brazil and Argentina were affected negatively by the deep recession which afflicted most Asian countries in the late 1990s, on the whole the area experienced significant growth.

Asia

Here, too, increasing commitment to copyright protection has resulted in the establishment of successful legitimate entertainment industries in countries such as Taiwan, Singapore and Malaysia, which were once hotbeds of piracy. In Hong Kong, which reverted to rule by the People's Republic of China several years ago, the entertainment industry remains strong, far stronger than that of the rest of the People's Republic, which has adopted—but does not seem to enforce—copyright legislation. In countries such as Japan, Hong Kong, and Thailand, local repertoire is far more important than foreign material; as a result, the multinationals continue to expend major efforts to increase their presence in this area. It is clear that the People's Republic of China, India and Indonesia have enormous potential (indeed, the potential for double digit annual growth) if strong copyright and trademark regimes can be established and maintained.

The Enduring Presence of Protectionism

U.S. distributors, performing and recording artists, songwriters and music publishers have had to contend for many years with economic and cultural protectionism in many of their best markets. In Canada, for example, radio and television broadcasters are required to include a specified percentage of “Canadian content,” i.e., materials created in and/or performed by Canadians, a policy which has been in place for many years. Understandably, Canada—with a population only a tenth that of the U.S. and with most of those people living close to the border with the U.S. (Canadians frequently characterize their country as “three thousand miles wide and an inch deep”)—is concerned that its domestic creative industries not be overwhelmed by those in the U.S. By the same token, the members of the European Union—with France the most aggressively vocal—also resent what they see as economic and cultural imperialism from the U.S. During the Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT), U.S. negotiators tried—and failed—to secure a prohibition against cultural protectionism. The 1994 treaty *did* accomplish a major aim of the entertainment industries: member countries were required to provide and enforce minimum standards of copyright and other intellectual property protection (the so-called “TRIPS” provisions—Trade Related Aspects of Intellectual Property Rights.) However, U.S. television interests must still contend with the EU “Television Without Frontiers” Directive, which requires that at least 50%

of prime time programming “whenever practicable” be of EU origin. The French government has long sought to eliminate the “whenever practicable” loophole, but other EU governments have been resistant.

On the other hand, China, which has been campaigning to join the World Trade Organization (the highly controversial supervisory organization established by the GATT treaty) has agreed to increase the number of foreign films which may be exhibited in China each year from 12 to 30. This is a small step, but it is a sign.

Organization of the Fourth Edition

Because of the increasing technological convergence among, and interaction between, various entertainment industries, it is clear that the degree of interchange of principles between and among the various industries which we survey is increasing rapidly: literary publishing, music publishing, records, films, television, and, of course, the Internet and other new and emerging technologies. Even the theatre may be affected (for example, because many Broadway productions are now financed by film companies with a view toward eventual movie versions).

An introductory section dealing with attachments, preliminary injunctions and summary judgments follows this overview. We included it because so many of the cases in this book involve motions for preliminary injunction or for summary judgment, and because the remedy of pre-judgment attachment can be very useful in situations where one or more parties to an action may be less than completely financially responsible, or where *in personam* jurisdiction over a particular defendant may not be available. We have therefore deleted from the cases which follow those portions of the decisions that discuss the standards under which preliminary relief may be granted, and the reader is invited to refer back to the second part of the introduction when in doubt.

The main body of the book is divided into two parts: Part One, which deals with general principles; and Part Two, which deals with specific industries.

NOTES

1. For a detailed and thoughtful treatise, see Thomas D. Selz, Melvin Simensky, Patricia Action and Robert Lind, *Entertainment Law* (St. Paul: West Group 1999 update).

2. For annotated forms and discussions of individual industries, see Alexander Lindey and Michael Landau, *Lindey on Entertainment, Publishing and the Arts* (St. Paul: West Group 1999 update).

3. With respect to international issues, see Melvin Simensky, Lanning G. Bryer and Neil J. Wilkof, general editors, *Intellectual Property in the Global Marketplace* (2d Edition)(New York: John Wiley & Sons, Inc. 1999) and Paul Edward Geller, general editor (original editors, Melville B. Nimmer and Paul Edward Geller), *International Copyright Law & Practice* (New York: Matthew Bender 1999 update).

4. Although taxation is beyond the scope of this book, Schuyler M. Moore, *Taxation of the Entertainment Industry* (Frederick, MD: Panel Publishers 1999) is an excellent examination of tax issues relevant to the entertainment industries.

5. The financial aspects of the entertainment industries are discussed in Harold L. Vogel, *Entertainment Industry Economics: A Guide For Financial Analysis* (4th Ed.)(New York: Cambridge University Press, 1998) and Michael J. Wolf, *The Entertainment Economy: How Mega-Media Forces Are Transforming Our Lives* (New York: Times Books, 1999).

STANDARDS GOVERNING PRELIMINARY INJUNCTIONS, MOTIONS FOR SUMMARY JUDGMENT, AND ATTACHMENTS

Introduction

The provisional remedies of preliminary injunction, summary judgment and writ of attachment are particularly well-suited to the resolution of disputes in the entertainment industry. Preliminary injunctions have been addressed in entertainment cases involving Lanham Act §43(a),¹ copyright infringement,² right of privacy,³ the Cable Communications Act⁴ and breach of personal service contracts.⁵ Motions for summary judgment have been addressed in entertainment cases involving right of privacy,⁶ copyright infringement,⁷ breach of contract,⁸ libel⁹ and declaration of rights.¹⁰ Writs of attachment have been addressed in entertainment cases involving breach of contract,¹¹ default,¹² unpaid legal services¹³ and breach of fiduciary duty.¹⁴

The need for immediate judicial intervention to preserve the status quo and to preserve funds sufficient to satisfy a judgment is the reason to resort to the provisional remedies of preliminary injunction and attachment. The possibility of resolving a dispute without the presence of the parties and on paper makes a motion for summary judgment particularly useful. The parties can proceed with their creative and exploitive efforts and the lawyers can deal with the legal issues in their absence. The standards governing the provisional remedies of preliminary injunction, summary judgment and writ of attachment are discussed below.

Preliminary Injunction

A preliminary injunction is a provisional remedy particularly well-suited to the entertainment industry because of its effect of preserving the status quo. A preliminary injunction usually arises in the context of an identifiable subject matter which is in danger of being removed or destroyed and is a means of securing immediate judicial intervention, generally at the outset of a lawsuit and before the commencement of discovery and a full trial on the merits. Although a seemingly more rigid standard would seem to apply where First Amendment concerns are implicated, the right to a preliminary injunction is also a personal right as well as a real and intellectual property right.¹⁵ The purpose of a preliminary injunction is to protect a party from irreparable harm or injury by maintaining the status quo during the pendency of the lawsuit. Most jurisdictions require that (i) a hearing be held (ii) upon notice to the adverse party and (iii) that the party seeking the preliminary injunction post an undertaking, *e.g.*, a bond. Under the Federal Rules of Civil Procedure, the court may order the trial of the action on the merits to be advanced and consolidated with the hearing of the application for a preliminary injunction.¹⁶ On the state level, the preliminary injunction statutes of California, New York and Tennessee are representative.¹⁷ Under the Federal Rules of Civil Procedure and the statutes of California,¹⁸ New York and Tennessee, the court, in the exercise of discretion and upon a demonstration of immediate irreparable harm or injury by the applicant, may grant a temporary restraining order to preserve the status quo until the hearing on the application for a preliminary injunction.¹⁹

In order to obtain a preliminary injunction, the applicant must demonstrate (i) the existence of a cause of action with a reasonably identifiable subject matter

other than a cause of action for money damages or a cause of action for a permanent injunction, (ii) a likelihood of success on the merits, (iii) irreparable injury and (iv) a balancing of the equities in favor of the applicant.²⁰ The court has broad discretion on an application for a preliminary injunction and may grant the relief even in the absence of explicit irreparable harm, some courts presuming irreparable harm if an aggrieved party proves a reasonable probability of success on the merits.²¹ Even if a party makes this requisite showing, a preliminary injunction will generally be denied if a party has an adequate remedy at law.

Summary Judgment

A motion for summary judgment is also particularly well-suited to the entertainment industry because it permits the procedural equivalent of a trial on the merits to occur in a summary fashion on moving papers without the presence of the parties. As in other industries, the entertainment industries are “time is money” industries. Entertainment professionals are creatively involved in acting, touring, writing, staging, producing, directing and recording. More often than not, there are delivery and/or release deadlines to be met with respect to created materials and little time available to participate in the judicial process. A motion for summary judgment is an expeditious procedure which does not require the presence of the actual litigants and thus is extremely useful when a party is able to satisfy the prerequisites.

The Federal Rules of Civil Procedure²² and comparable state statutes provide for motions for summary judgment. The California, New York and Tennessee statutes are typical in this area.²³ A motion for summary judgment allows a party to move for summary disposition on a claim, counterclaim, or cross-claim when that party believes that there is no genuine issue of material fact and that the movant is entitled to judgment as a matter of law.²⁴ Summary judgment thus becomes the procedural equivalent of a trial on the merits.²⁵

In order to secure summary judgment, the movant must demonstrate that no genuine material issues of fact exist as to the pending claim, counterclaim, or cross-claim and that the movant is therefore entitled to judgment as a matter of law.²⁶ An issue is “genuine” if a reasonable jury could possibly hold in the non-movant’s favor with regard to that issue and a fact is material if it influences the outcome under the governing law.²⁷

The moving party essentially bears the burdens of production and persuasion. The moving party’s initial burden of production is to demonstrate the absence of a genuine material issue of fact.²⁸ This burden may be met by showing the absence of supporting evidence in the nonmoving party’s case. The moving party’s second burden of persuasion, one that always remains with the movant, is to convince the court that there is no necessity of a trial.²⁹ Once the moving party’s burden of production is met, the nonmoving party must then come forward with explicit facts to show a genuine material issue of fact. The court’s role on a motion for summary judgment is issue finding, not issue determination.³⁰

Writ of Attachment

The writ of attachment is another provisional remedy well-suited to the entertainment industries for two reasons: (1) it may be used to obtain *quasi in rem*

jurisdiction when *in personam* jurisdiction does not exist and (2) it may be used as a security device to preserve funds sufficient to satisfy a judgment.

The Federal Rules of Civil Procedure³¹ and statutes in most jurisdictions provide for the provisional remedy of writ of attachment. Again, the statutes of California, New York and Tennessee are typical in this area.³² A writ of attachment can be particularly useful where the defendant is not a domiciliary of the plaintiff's chosen forum state. The presence or absence of constitutionally mandated minimum contacts determines whether or not *quasi in rem* jurisdiction exists.

Factors which aid the court in granting a writ of attachment for security purposes are (1) the existence or probability that the party against whom an attachment is sought has received or will receive highly liquid assets and has the financial sophistication to invest those assets in a manner that would make enforcement of a judgment difficult and (2) less than exemplary conduct by such party.³³

A writ of attachment will generally issue if plaintiff's demand is for a money judgment and defendant is a nondomiciliary of the state or it appears that defendant, with intent to frustrate a judgment or defraud creditors, is seeking to remove or secrete property from the state.³⁴

NOTES

1. *King v. Innovation Books, A Division of Innovative Corporation*, 976 F.2d 824 (2d Cir. 1992).

2. *Lucasarts Entertainment Company v. Humongous Entertainment Company*, 815 F. Supp. 332 (N.D.Cal. 1993). *Frank Schaffer Publications, Inc. v. The Lyons Partnership, L.P.*, 93 CV 3614 R; full text printed in 15 *Entertainment Law Reporter* (March 1994).

3. *Time, Inc. v. Sand Creek Partners, L.P.*, 825 F. Supp. 210 (S.D.Ind. 1993).

4. *Manhattan Cable Television, Inc. v. The Cable Doctor, Inc.*, 824 F. Supp. 32 (S.D.N.Y. 1993).

5. *MCA Records, Inc. v. Newton-John*, 90 Cal.App. 3d 18, 153 Cal.Rptr. 153 (1979). *Motown Record Corporation v. Tina Marie Brockert*, 160 Cal.App. 3d 123, 207 Cal.Rptr. 574 (1984).

6. *Dora v. Frontline Video, Inc.*, 15 Cal.App. 4th 536, 18 Cal.Rptr. 790 (Cal.App. 2d Dist. 1993).

7. *Jarvis v. A & M Records*, 827 F. Supp. 282 (D.N.J. 1993). *Kregos v. Associated Press*, 3 F.3d 656 (2d Cir. 1993). *Ray Repp and K & R Music, Inc. v. Andrew Lloyd Weber, The Really Useful Group, et al.*, United States District Court for the Southern District of New York, 91 Civ. 0906 ("Kram, J. 8/3/94").

8. *Joseph Vian v. Mariah Carey*, 1993 U.S. Dist. LEXIS 5460.

9. *Naantaanbuu v. Abernathy*, 816 F. Supp. 218 (S.D.N.Y. 1993).

10. *Sillman v. Twentieth Century Fox Film Corporation*, 3 N.Y.2d 395, 165 N.Y.S.2d 498 (1957).

11. *Computer Strategies, Inc. v. Commodore Business Machines, Inc.*, 105 A.D.2d 167, 483 N.Y.S.2d 716 (2d Dept. 1984).

12. *ITC Entertainment, Ltd. v. Nelson Film Partners*, 714 F.2d 217 (2d Cir. 1983).

13. *Loeb and Loeb v. Beverly Glen Music, Inc.*, 166 Cal.App. 3d 1110, 212 Cal.Rptr. 830 (Cal.App. 2d Dist. 1985).

14. *William Martin Joel p/k/a Billy Joel and Electric Company Productions, Inc. v. Francis X. Weber a/k/a Frank Weber, et al.*, Supreme Court of the State of New York, County of New York, Index No. 20702/89 ("Lehner, J. 9/6/91").

15. *Time, Inc. v. Sand Creek Partners, L.P.*, 825 F. Supp. 210 (S.D.Ind. 1993).

16. Federal Rule of Civil Procedure 65(a)(2).

17. C.C.P. § 527, C.P.L.R. § 6301 et seq., Tenn. Code Ann. Rule 65.
18. Two articles which discuss the amended California injunction statute are:
 - (1) William I. Hochberg, "Revising the 'Jump Ship' Clause: How California Legislators and the Music Industry Raised the Ante from Record Companies Seeking Injunctions Against Defecting Artists," *Entertainment Law Reporter*, vol. 15, no. 8 (January 1994).
 - (2) William I. Hochberg, "Revising the 'Jump Ship' Clause . . . Revisited: 'Superstar Insurance' Question Lingers," *Entertainment Law Reporter*, vol. 15, no. 9 (February 1994).
19. Federal Rule of Civil Procedure 65(d), C.C.P. § 527, C.P.L.R. § 6313, Tenn. Code Ann. Rule 65.02.
20. *King v. Innovation Books, A Division of Innovative Corporation*, 976 F.2d 824 (2d Cir. 1992).
21. *King v. Innovation Books, A Division of Innovative Corporation*, 976 F.2d 924 (2d Cir. 1992). *Manhattan Cable Television, Inc. v. The Cable Doctor, Inc.*, 824 F. Supp. 32 (S.D.N.Y. 1993).
22. Federal Rule of Civil Procedure 56.
23. C.C.P. § 437c, C.P.L.R. § 3212, Tenn. Code Ann. Rule 56.
24. Federal Rule of Civil Procedure 56.
25. *Sillman v. Twentieth Century Fox Film Corporation*, 3 N.Y.2d 395, 165 N.Y.S.2d 498 (1957).
26. *Joseph Vian v. Mariah Carey*, 1993 U.S. Dist. LEXIS 5460.
27. *Jarvis v. A & M Records*, 827 F. Supp. 282 (D.N.J. 1993).
28. *Kregos v. Associated Press*, 3 F.3d 656 (2d Cir. 1993).
29. *Celotex Corp. v. Catrett*, 477 U.S. 317, 330–33, 106 S.Ct. 2548, 2556–58, 91 L.Ed.2d 265 (1986).
30. *Sillman v. Twentieth Century-Fox Film Corporation*, 3 N.Y.2d 395, 165 N.Y.S.2d 498 (1957).
31. Federal Rule of Civil Procedure 64.
32. Cal. Code. § 483 et seq., C.P.L.R. § 6201 et seq., Tenn. Code Ann. Rule 64, Tenn. Code Ann. § 29–6–101 et seq.
33. *ITC Entertainment, Ltd. v. Nelson Film Partners*, 714 F.2d 217 (2d Cir. 1983).
34. C.P.L.R. § 6201 et seq., Tenn. Code Ann. Rule 64, Tenn. Code Ann. § 29–6–101 et seq. *ITC Entertainment, Ltd. v. Nelson Film Partners*, 714 F.2d 217 (2d Cir. 1983). *Computer Strategies, Inc. v. Commodore Business machines, Inc.*, 105 A.D.2d 167, 483 N.Y.S.2d 716 (2d Dept. 1984). *William Martin Joel p/k/a Billy Joel and Electric Company Productions, Inc. v. Francis X. Weber a/k/a Frank Weber, et al.*, Supreme Court of the State of New York, County of New York, Index No. 20702/89 ("Lehner, J. 9/6/91").

Part One

Chapter 1

REPRESENTING TALENT

1.1 INTRODUCTION: A BUSINESS OF INTERMEDIARIES

Although many creative talents are also adept at handling the business aspects of their professional lives (*e.g.*, Mel Gibson, Jodie Foster and Michael Douglas, in addition to being leading actors, are also successful producers), professional representation is a hallmark of the entertainment industries, in which most of the business dealings are undertaken by intermediaries. An established artist will usually have a “team” of advisers: an agent, a personal manager, a business manager, and an attorney. While there is no standard deal in any of these areas (the outcome being dependent upon the relative stature and bargaining power of the parties), the combined fees of the artist’s representatives may aggregate in the neighborhood of 30 to 40 percent of an artist’s gross receipts.

This chapter discusses issues which arise between talent and various types of professional representatives.

No one at all familiar with the entertainment industries can fail to recognize names such as “Creative Artists Agency,” “William Morris” and “ICM,” heretofore the “big three” among the talent agencies. Indeed, at its peak, CAA was the most powerful among the three. However, after CAA’s founders, Michael Ovitz, Ron Meyer and Bill Haber, left the agency for other fields (Ovitz and Meyer for brief tenures at Disney and Universal, respectively, and Haber to other pursuits), CAA’s dominance declined substantially.

Ovitz and Meyer were not the first to move from “agent” status to “player” status. A number of former agents have followed similar routes. Perhaps the classic case is David Geffen who, after starting in the William Morris mailroom, went on to found first Asylum Records (which he sold to Warner Communications, Inc.), Geffen Records (which he later sold to MCA Records in a deal valued at over \$500 million, only to see the value of his MCA shares balloon to over \$700 million when MCA was acquired by Matsushita), and to produce on Broadway (*Cats*, *Dreamgirls*) and for the screen (*Little Shop of Horrors* and *Beetlejuice*). In his most recent move, Geffen became (along with Steven Spielberg and Jeffrey

Katzenberg) a founding principal of DreamWorks SKG. Guy McIlwaine of ICM served for several years as chairman of Columbia Pictures. Indeed, Universal Studios (formerly MCA) is the outgrowth of what was originally a talent agency which drifted into film production as an outgrowth of successfully “packaging” its various clients in movie deals (*i.e.*, tying together the property, the writer, the director, and the star players, and presenting them to the studio as a totality).

Agents are supposed to find work for their clients. (On the other hand, a number of prominent actors—Paul Newman and Kevin Costner being two examples—have dropped their agents and make their own deals, utilizing only their attorneys.)

“Personal managers” are a slightly different breed, at least theoretically. Although they resemble the agents in their intimate involvement with the endless dealmaking which characterizes the entertainment industries, genuine personal managers are concerned with career development and will therefore be more directed toward the day-to-day activities of their clients than are the agents. They like to characterize their activities as “career direction,” a not-unjustified description as applied to effective personal managers.

The former chairman of the MCA Music Entertainment Group, Irving Azoff, who was subsequently head of a recording joint venture with Warner Bros. Records, came to prominence as the personal manager of such successful pop music acts as the Eagles, Boz Scaggs, Dan Fogelberg, and the Go-Go’s. Larry Thompson of Los Angeles successfully combined the roles of lawyer, personal manager, and film and television producer. Jerry Weintraub, who managed such diverse talents as Bob Dylan, Dorothy Hamill, and John Denver, also produced films as diverse as *Cruising*, *Oh, God*, and *The Karate Kid*.

Because of the tendency on the part of personal managers toward intimate involvement with career development and the creation of public personae for their clients, managers sometimes assume almost Svengali-like relationships with their clients. In recent years, in order to secure higher compensation (as well as greater security) than that provided for under the “agency” rubric, many agents have become managers, and have gone into business with their former agency clients and others. Michael Ovitz’ Artists Management Group and Basic Entertainment (formerly Brillstein-Grey Entertainment) are prime examples of this trend. As we will see below, such activity appears to be perfectly legal in both New York and California, so long as the venture is not a subterfuge.

In addition to “*personal* managers,” there are “*business* managers,” usually (but by no means always) CPAs, who generally restrict themselves to *financial* aspects of their clients’ careers. A fee of 5 percent of the artist’s gross receipts is common (although, again, there is no standard deal and many business managers work on an hourly basis or pursuant to other arrangements.) The business manager’s functions can range from simple accounting services to paying the client’s bills, advising on investments, effectively running tours, and other extremely complicated functions. A business manager has strong fiduciary obligations to the client, as is illustrated by *ABKCO Music Inc. v. Harrisons Music, Ltd.* which follows.

Agents seem to be the dominant dealmakers in the theatre, book publishing, films, and television, although in many areas the roles overlap. For example, Morton Janklow of New York City, a leading author’s agent, is also a prominent attorney. However, attorneys and personal managers have for many years been the predominant dealmakers in the fields of records and music publishing. This may be due to the fact that records did not begin to develop into a truly major

area of the entertainment industries until the 1950s, and did not receive a great deal of attention from the agents until the attorney/manager pattern had become established. It may also be due to the fact that each of the various entertainment industries is a “people” business—a relatively small number of participants who know and deal with each other constantly. Then, too, in California and New York, fees are effectively limited to 10 percent of gross receipts (while personal managers customarily receive anywhere from 15 to 25 percent, although in individual cases the fees may run higher or lower), and the California Labor Commission will not approve an agent’s contract which does not require a measurable level of performance: A certain amount of work must be secured on a regular basis, or the artist can terminate the term of the agreement. These considerations may act as something of a deterrent to the involvement of agents in records and music publishing.

Attorneys play a major role in the entertainment industries. This is nothing new. *Variety*’s lead story on July 25, 1990, headlined “LEGAL EAGLES RULE THE ROOST” and subtitled “H’wood lawyers cut the big deals, but some doubt they deserve the big cuts,” stated:

They cultivate extravagant personal lifestyles, pocket a hefty percentage of their deals (rather than traditional hourly fees), and even hire their own press-agents. . . . The new Hollywood lawyer has achieved unprecedented power and prestige in the entertainment industry and a substantial number are earning more than \$2 million a year for their efforts. At the same time, they are earning critics who fret about their power and practices. “Hollywood lawyers have become a self-perpetuating oligarchy,” says one network president.

Clearly, a top entertainment attorney represents a combination of expertise, experience, and relationships (sometimes translated as “clout”). Since the population of each of the entertainment industries is relatively small, and the “producer” (whether book publisher, record company, film studio, or otherwise) is likely to be a well-financed multinational conglomerate, it is not hard to see why this phenomenon has occurred. For their part, the producers have not been at all loath to raid the ranks of the bar to fill top executive positions. Some examples: the late Disney president Frank Wells; Sidney Sheinberg, former president of MCA, Inc.; Thomas Pollock, former head of MCA’s Universal Pictures unit (now, along with director Ivan Reitman, a principal of Montecito Picture Co., producers of “Road Trip”); Clive Davis, the legendary CEO of Arista Records for twenty-five years, Walter Yetnikoff, M. Richard Asher, and Peter Paterno, the respective former chairs of CBS Records (later Sony Music Entertainment), PolyGram Records, and Hollywood Records. As will be seen in *Croce v. Kurnit*, in the following section, attorneys often find themselves in the midst of very complicated relationships in the music and record industries, and they may unwittingly undertake quasi-fiduciary obligations to persons other than those who are formally their clients, with potentially disastrous consequences.

1.2 ATTORNEYS

Attorneys are the predominant dealmakers in the record and music publishing industries. As the following cases indicate, just whom a particular attorney may be representing in a particular transaction can sometimes be confusing—and

costly. In *Croce v. Kurnit*, which follows, the lawyer was a principal in a record production company that had Jim Croce under contract. Later, the attorney handled some of Croce's legal and business affairs, leading to the later charge that the lawyer had fiduciary duties to Croce and had breached these duties. In *McCauley Music v. Solomon*, a lawyer was deemed negligent in failing to advise a client of an impending option exercise date, even though the lawyer had never represented the client with respect to the contract in question.

Because of their roles, attorneys often develop hostile relationships with industry executives in the course of their representation of various clients. As we see in the following discussion of *Engel v. CBS*, aggressive representation sometimes produces a negative, even vindictive reaction at the company.

1.2.1 Ethical Considerations

Before proceeding to a consideration of case law, however, it is important to comment upon several phenomena which recur with considerable frequency in relationships between entertainment attorneys and their clients: (1) percentage fees, (2) multiple client representation, and (3) participation in business deals with clients. Each is the subject of professional conduct rules, and each has resulted in client disputes. In the following portions of this chapter, we discuss the New York and California rules, as well as the ABA Model Rules; however, similar rules are likely to be found in virtually every state. Under DR 2-106B [22 NYCRR § 1200.11] NY Disciplinary Rule DR 1-105 (all "NY" references being to the June 30, 1999 edition), a lawyer admitted to practice in New York is subject to discipline in New York "regardless of where the lawyer's conduct occurs." Under State Bar of California Rules of Professional Conduct ("CA") Rule 1-100(D)(1) (all "CA" references being to the January 2000 edition,) the California rules "shall govern the activities of members in and outside this state, except as members lawfully practicing outside this state may be specifically required by a jurisdiction in which they are practicing to follow rules of professional conduct different from these rules," and, under CA Rule 1-100(D)(2), the California rules apply to the activities of lawyers from other jurisdictions "while engaged in the performance of lawyer functions in this state."

1.2.1.1 Percentage Fees

Frequently, an entertainment lawyer will insist upon a fee based upon a percentage of the client's earnings, either because the client is short of funds at the time the lawyer is retained, or because the lawyer has sufficient "clout" that he/she/they are able to insist upon a percentage. Typically, the fee will be 5% to 10% of the client's gross income from matters upon which the lawyer works. Sometimes, the fee will be "capped" at a multiple of the attorney's regular hourly fee (e.g., no more fees are payable when the lawyer has received 150% of what the attorney would have received had the client paid the lawyer's regular hourly rate for the hours worked) or on the basis of time or product (e.g., no more fees are payable after the third anniversary of the commencement of a record deal, or with respect to any records sold following release of the second album.) In other cases, the fee continues indefinitely.

A percentage fee is not illegal. However, the fee provided to an attorney under a client fee agreement is always subject to scrutiny. It is additionally noteworthy that under NYSBA Lawyer's Code of Professional Responsibility [22 NYCRR §

1200.1 et. seq.] (references to “NY,” being to the Code as of June 30 1999, as set forth in the New York Code, Rules & Regulations) “A lawyer shall not enter into an agreement for, charge or collect an illegal or excessive fee.” CA Rule 4–200 (no “illegal or unconscionable” fee, setting out eleven standards of measurement); In California, the fee is subject to mandatory arbitration at the election of the client. California Business & Professions Code §6200(c). NY DR 2–106A (“A fee is excessive when, after a review of the facts, a lawyer of ordinary prudence would be left with a definite and firm conviction that the fee is in excess of a reasonable fee,” setting out eight standards of measurement); American Bar Association Model Rules of Professional Conduct (“ABA,” references being to the January 1999 edition) Rule 1.5 (“A lawyer’s fee shall be reasonable,” again with eight standards of measurement. Contingent fee agreements must always be in writing. California Business & Professions Code §6147. (Indeed, in California, unless an attorney has a pre-existing working relationship with the client, the client waives the requirement with full knowledge of Section 6147, or the client is a corporation agreement must be in writing where total foreseeable client expenses—including attorneys’ fees—exceed \$1,000. *Id.*, §6148). See, also, NY DR 2–106D [22 NYCRR §1200.11]; ABA Rule 1.5(c).

1.2.1.2 Multiple Client Representation

This generally takes two forms (a) representation of a performing or recording group consisting of several members, (b) representation of a “package” of some or all of the “above the line” personnel involved with a film or television project (*i.e.*, producer, director, writer, lead actors). Problems may arise where one or more participants feel that other participants are receiving preferential treatment, or where relationships between participants deteriorate over time (just to name two frequent scenarios.)

The key to such representation is informed written consent after full disclosure of actual or potential problems. Under CA Rule 3-310, potential problems include existing “legal, business, financial, professional or personal relationship” with any of the participants, or pre-existing relationships of these types where the attorney “knows or reasonably should know” that the previous relationship “would substantially affect the member’s representation.” Without informed written consent, an attorney shall not “[a]ccept representation of more than one client in a matter in which the interests of the clients potentially conflict” or continue where such interests “actually conflict,” accept representation of a client in a subsequent matter where the interest of the client is adverse to that of a client in another concurrent matter, or accept employment “adverse to the client or former client where, by reason of the representation of the client or former client, the [attorney] has obtained confidential information material to the employment.” *Id.*

New York has strict rules concerning conflicts of interest (which obviously can apply both to the area of representation of multiple clients and to attorneys’ participation in business dealings with their clients, which is discussed in the following subsection.) Under DR 5–101 [22 NYCRR § 1200.20]:

A lawyer shall not accept or continue employment if the exercise of professional judgment on behalf of the client will be or reasonably may be affected by the lawyer’s own financial, business, property or personal interests, unless a disinterested lawyer would believe that the representation of the client will not be adversely

affected thereby, and the client consents to the representation after full disclosure of the implications of the lawyer's interest.

In New York, a lawyer must decline multiple representation "if the exercise of independent professional judgment in behalf of a client will be or is likely to be adversely affected by the lawyer's representation of another client, or if it would be likely to involve the lawyer in representing differing interests." DR 5-105B [22 NYCRR § 1200.24]. However, multiple representation is permissible "if a disinterested lawyer would believe that the lawyer can competently represent the interest of each [client] and if each [client] consents to the representation after full disclosure of the implications of the simultaneous representation and the advantages and risks involved." DR 5-105C [22 NYCRR §1200.24].

Interestingly, the ABA Model Rules adopt a more lenient standard than either the California or New York rules. Under ABA Model Rule 1.7:

(a) A lawyer shall not represent a client if the representation of that client will be directly adverse to another client, unless:

- (1) the lawyer reasonably believes the representation will not adversely affect the relationship with the other client; and
- (2) each client consents after consultation.

(b) A lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person, or by the lawyer's own interests, unless:

- (1) the lawyer reasonably believes the representation will not be adversely affected; and
- (2) the client consents after consultation. When representation of multiple clients in a single matter is undertaken, the consultation shall include explanation of the implications of the common representation and the advantages and risks involved.

1.2.1.3 Participation in Business Deals with Clients

It is always risky for an attorney to go into business with a client where the attorney performs legal services for the venture. If the venture turns sour, the client will frequently seek to put the blame (and any attendant financial loss) on the attorney. California deals with attorney/client business ventures in Rule 3-300:

A member shall not enter into a business transaction with a client; or knowingly acquire an ownership, possessory, security or other pecuniary interest adverse to a client, unless each of the following requirements has been satisfied:

- (A) The transaction or acquisition and its terms are fair and reasonable to the client and are fully disclosed and transmitted in writing to the client in a manner which should reasonably have been understood by the client; and
- (B) The client is advised in writing that the client may seek the advice of an independent lawyer of the client's choice and is given a reasonable opportunity to seek that advice; and
- (C) The client thereafter consents in writing to the terms of the transaction or the terms of the acquisition.

NY DR 5-104A [22 NYCRR § 1200.23] is similar to the California rule, but is somewhat stronger:

A lawyer shall not enter into a business transaction with a client if they have differing interests therein and if the client expects the lawyer to exercise professional judgment therein for the protection of the client, unless:

1. The transaction and the terms on which the lawyer acquires the interest are fair and reasonable to the client and are fully disclosed and transmitted in writing to the client in a manner that can reasonably be understood by the client;
2. The lawyer advises the client to seek the advice of independent counsel in the transaction; and
3. The client consents in writing, after full disclosure, to the terms of the transaction and to the lawyer's inherent conflict of interest in the transaction.

ABA Model Rule 1.8 (a) has elements of both of the preceding rules:

A lawyer shall not enter into a business transaction with a client or knowingly acquire an ownership, possessory, security or other pecuniary interest adverse to a client unless:

- (1) the transaction and terms on which the lawyer acquires the interest are fair and reasonable to the client and are fully disclosed and transmitted in writing to the client in a manner which can reasonably be understood by the client;
- (2) the client is given a reasonable opportunity to seek the advice of independent counsel in the transaction; and
- (3) the client consents in writing thereto.

Croce v. Kurnit, 565 F. Supp. 884 (S.D.N.Y. 1982)

SWEET, J.

This diversity action, a portion of which was tried to the court, presented facts which evoked memories of *A Star Is Born*, except that the star in this case, James Croce, died all too soon after his ascendancy. The complaint filed by Ingrid Croce, his widow and heir ("Mrs. Croce"), a California resident, sought to obtain certain damages from the defendants, citizens of states other than California, arising out of an alleged breach of certain contracts as well as rescission of the contracts on the ground of fraud, and breach of fiduciary duty. On the findings and conclusions set forth below, judgment will be granted to the defendants dismissing the claims of unconscionability and breach of fiduciary duty against Cashman and West and granting Croce's breach of fiduciary claim against Kurnit. The defendants' motion for judgment notwithstanding the verdict is denied. . . .

James Joseph Croce ("Jim Croce") was born in 1943 and in the course of his schooling attended Villanova University. There he met Ingrid, who subsequently became his wife, and also Tommy West, who became both his friend and, as it developed, a business associate. During the college years Jim Croce sang, played guitar and wrote songs, as did West.

After graduation from College, Jim Croce sought to shape a career out of his interest in music, played and sang in coffee houses, and developed both his own style and his own music. He managed to produce a record album entitled "Facets" containing certain of his songs which he performed. He sent the album to Tommy and sought to interest the latter in his work.

West in the meantime also developed a career in music, producing, singing and playing for commercials. He had met Cashman with whom he collaborated as well as Kurnit, an attorney who had been working at ABC Records, Inc. By

1968 all three, West, Cashman and Kurnit, were at CBS, Cashman, West in the music department and Kurnit serving in the legal department. The two musicians together with Eugene Pistilli ("Pistilli") decided to enter the record business on their own and set up CP & W for that purpose. Kurnit was also a participant in the enterprise.

In the summer of 1968, while Kurnit was still at CBS, Jim and Ingrid Croce arrived in New York, stayed with West, and met Kurnit, who was introduced to them as "the lawyer." West and the Croces discussed the possibility of CP & W producing a record by Jim Croce. The outlines of the contractual arrangements were discussed, the Croces returned to Pennsylvania and according to West, proposed contracts were taken to them after their trip to New York and before their return to New York on September 17, 1968. Whether or not that occurred (Mrs. Croce maintains it did not), the Croces did not conduct any meaningful review of the contract until September 17, 1968.

On that date the Croces were in New York again, staying with the Wests. They met Kurnit for the second time. He outlined the contract terms to them in a two to three hour meeting. According to Kurnit, there was no negotiation although a minor change in the proposed contract was made. The Croces signed three agreements, a recording contract with CP & W, a publishing contract with Blendingwell and a personal management contract also with Blendingwell ("the contracts"). The Croces were unrepresented, and they were not advised to obtain counsel by Kurnit who signed the contracts on behalf of the corporate entities. Kurnit was known to the Croces to be a participant with Cashman, Pistilli and West in their enterprises. The Croces did not enter into any retainer agreement with Kurnit, were never billed by him in connection with the contracts, and aside from the meeting of September 17, received no advice from him concerning the contracts.

The contracts that were executed on September 17, 1968 provided that Croce would perform and record exclusively for CP & W, as well as the terms under which all the Croce's songs would be published and managerial services would be provided for the Croces. The contracts placed no affirmative requirements on the defendants other than to pay each of the Croces approximately \$600 a year and to make certain royalty payments in the event that music or records were sold. The duration of the contracts was seven years if options to extend were exercised by the defendants. All rights to the Croces' musical performances and writings were granted to the defendants. The management contract was assignable.

The expert testimony offered by Mrs. Croce focused on the effect of the assignability of the management contract, the lack of any objective threshold to be achieved before the exercise of options, and the interrelationship of the three contracts. In addition other significant provisions were cited as being unfavorable to the Croces which would have been the subject of negotiation had the Croces in September 1968 been represented by the expert retained in 1982. These included the term of the contracts, the royalty rate and its escalation, a revision of the copyrights, a minimum recording sides obligation, and the time for making objections to royalty statements.

However, certain of the provisions which were under attack were also contained in the forms published by various organizations involved in the entertainment industry, and there was no evidence presented in this action, meticulously prepared by able counsel on both sides, which established that the terms of these

contracts differed significantly from others prepared by Kurnit on behalf of the defendants. These contracts include many terms of art and are customarily the subject of hard bargaining in the event that the artist and the producer both have established economic power. Here, however, no significant changes were made in the contracts as initially proposed by Kurnit on behalf of the other defendants.

After the contracts were executed, the parties undertook their performance. In the summer of 1969 the recording contract was assigned to Interrobang Productions, Inc. (“Interrobang”), as was the management contract a year later. Cashwest is the successor in interest to Interrobang. The management contract was assigned to Showcase Management, a company in which CP & W had an interest, a demonstration record was prepared (a “demo”) and thereafter Capital Records undertook to produce a Croce recording under the direction of Nick Vanet. This recording was published in the spring of 1969 and after its publication, Jim Croce worked hard to promote it. By the winter of 1969–70 it was apparent the album was a failure, and Jim turned to other pursuits.

In the fall of 1968 Kurnit represented the Croces in connection with a lease. In April 1969 Kurnit listed his firm as the party to whom all ASCAP correspondence for Croce should be sent. In January 1970 Kurnit executed a document as attorney in fact for the Croces and also was involved in the dispute between the Croces and their then manager.

Notwithstanding, on March 19, 1970 Jim and Ingrid, unhappy with the management with which they had been provided, sought legal advice with respect to breaking the contracts. They retained Robert Cushman (“Cushman”) of Pepper, Hamilton & Schatz in Philadelphia. On June 9, 1970 Croce wrote to Kurnit seeking to terminate the contracts and advising him that “Ingrid and I are getting out of music.” In the summer of 1970, Cushman met with Kurnit and discussed the grievances which the Croces had expressed to him, supported at one point by a statement of Pistilli, which, according to Cushman, established that the Croces had been defrauded. Some revisions and amendments to the contracts were discussed.

In December 1970 Ingrid became pregnant, and Jim returned to songwriting and performing. Thereafter, he sent material to West who expressed interest and delight. Cushman requested a further retainer to pursue the revision or cancellation of the contracts and never heard again from either of the Croces.

In the early part of 1971 West and Cashman worked with Croce and prepared a demo. With Kurnit’s help, they sold the idea of its production to ABC, interested an established management agency in Croce with the result that Interrobang delegated its management contract for Croce to BNB Associates, Ltd. (“BNB”) in September 1971. Once the relationship with the defendants resumed in 1971 and the birth of his son in September, Jim’s career began to move. His work was well received and in April 1971, ABC records contracted to manufacture, distribute and sell Croce records. Jim was on the road late in 1971 and 1972 promoting and performing. His career skyrocketed and until September 20, 1973 the future appeared halcyon for all concerned. During 1972 Kurnit represented Croce on matters other than the contracts.

On September 20, 1973, after a concert in Louisiana, Croce took off in a private plane. The plane crashed in a thunderstorm, and Croce was killed.

Very shortly thereafter Kurnit visited Mrs. Croce and offered to represent the estate and to take care of the wrongful death action arising from the crash. On

September 26, 1973, Kurnit became the attorney for the Estate and Mrs. Croce. In connection with the wrongful death action, Kurnit later stated on the form filed with the Appellate Division on October 4, 1973: "Ingrid Croce, and her deceased husband, James J. Croce, have been my clients since 1968. I have been their personal attorney in a majority of their legal matters."

Kurnit served as counsel to the estate from September 26, 1973 until June 24, 1976. During the spring of 1976 Kurnit, on behalf of the defendants, had consulted Donnenfeld and Brent, a Los Angeles law firm, with respect to a movie proposal. Thereafter, at his request on June 24, 1976 that firm was substituted for him as counsel for the estate.

In 1975, Mrs. Croce remarried and in the company of her husband discussed with Kurnit the use of certain material which had not been the subject of the contracts. These discussions, involving what the parties have termed "the estate sides," were the subject of the contract issues concerning the publication of "The Faces I Have Been" album resolved by the jury's Special Verdict. During these discussions Kurnit represented CP & W and after the initial discussion, Mrs. Croce retained Ivan Hoffman, an attorney, to represent her. Hoffman and Kurnit exchanged correspondence, drafts and telephone calls. There is no evidence that Hoffman was consulted about the contracts or Mrs. Croce's rights which resulted from the contracts. . . .

During the period from 1968 to date the defendants received approximately \$6.9 million as a consequence of the performance of the contracts. The recording and entertainment career of Croce is not atypical, representing as it does, initially a famine, and ultimately a feast. No expert who testified claimed the prescience to determine in advance what records the public will buy or in what amount. Though the returns on a successful record are unbelievably high, the risk of initial failure is also high. Judgment, taste, skill and luck far outweigh the time spent or the capital expended on any particular recording.

It is on these facts that Mrs. Croce's claims of unconscionability and breach of fiduciary duty must be resolved, as well as the defendants' affirmative defenses of the statute of limitations and election of remedies. The claim of fraud has not been pressed by Mrs. Croce, and indeed there is no proof of misrepresentation, falsity or reliance except in connection with the fiduciary duty claims.

1. Representation by Kurnit

The claims of breach of fiduciary duty and procedural unconscionability are based on the role and actions of Kurnit at the signing and during the performance of the contracts. Indeed, the nature of Kurnit's relationship with the Croces determines whether this action is barred by the statute of limitations. Therefore, this court will assess the September 17, 1968 transaction before proceeding to the merits of each claim.

Mrs. Croce asserts that after Kurnit had been introduced to the Croces on a prior occasion as "the lawyer," Kurnit acted as the Croces' attorney at the signing of the contracts or in such a manner as to lead the Croces to reasonably believe that they could rely on his advice. The Croces were aware of the fact that Kurnit was an officer, director and shareholder of Blendingwell and Cashwest on whose behalf Kurnit signed the contracts.

In light of the facts set forth above, Kurnit did not act as the Croces' attorney at the signing of the contracts. Even in the absence of an express attorney-client relationship, however, a lawyer may owe a fiduciary obligation to persons with

whom he deals. . . . In particular, a fiduciary duty arises when a lawyer deals with persons who, although not strictly his clients, he has or should have reason to believe rely on him. . . . Kurnit's introduction as "the lawyer," his explanation to the Croces of the "legal ramifications" of the contracts which contained a number of legal terms and concepts, his interest as a principal in the transactions, his failure to advise the Croces to obtain outside counsel, and the Croces' lack of independent representation taken together establish both a fiduciary duty on the part of Kurnit and a breach of that duty.

In *Howard v. Murray*, 43 N.Y.2d 417, 372 N.E.2d 568, 401 N.Y.S.2d 781 (1977), an action to rescind a mortgage, bond and option arrangement, an attorney-client relationship had existed between the parties before the attorney became a principal in the transaction. The court concluded that any doubt as to whether an attorney-client relationship existed at the time of the transaction "should readily have been resolved against the defendant, absent proof of a clear and forthright statement to his clients that he was no longer their attorney and that they should obtain outside counsel before continuing any negotiations." *Id.* at 422, 372 N.E.2d at 570, 401 N.Y.S.2d at 784. Although I conclude that Kurnit did not act as counsel to the Croces before September 1968, the events surrounding the execution of the contracts, in particular his failure to advise the Croces to obtain counsel, establish the applicability of *Howard v. Murray* in determining the obligations of Kurnit.

Moreover, the limits of the fiduciary relationship as defined in *Penato v. George*, 52 A.D.2d 939, 383 N.Y.S.2d 900 (2d Dep't 1976) apply. The court there realized that the

exact limits of such a relationship are impossible of statement (see Bogert, *Trusts & Trustees* [2d ed.], § 481). Broadly stated, a fiduciary relationship is one founded upon trust or confidence reposed by one person in the integrity and fidelity of another. It is said that the relationship exists in all cases in which influence has been acquired and abused, in which confidence has been reposed and betrayed. The rule embraces both technical fiduciary relations and those informal relations which exist whenever one man trusts in, and relies upon, another.

383 N.Y.S.2d at 904–95. (citations omitted).

This definition of a fiduciary duty applies not only to Kurnit's relationship but also on the facts of this case to West and Cashman, in whom the Croces placed their trust. Before further addressing Mrs. Croce's breach of fiduciary duty allegations, however, the defendants' statute of limitations defense warrants examination. For these purposes, Kurnit's relationship with the Croces controls.

2. Statute of Limitations

The applicable statute of limitations is six years for fraud and breach of fiduciary duty. N.Y. Civ. Prac. § 213(1) & (2)(McKinney). To avoid the time bar, Mrs. Croce asserts that Kurnit's continuous representation of the Croces from September 17, 1968 to June 24, 1976 tolls the statute under the "continuous representation" doctrine set forth in *Greene v. Greene*, 56 N.Y.2d 86, 436 N.E.2d 496, 451 N.Y.S.2d 46 (1982). In that case, the New York Court of Appeals held that for statute of limitations purposes a cause of action against an attorney for acts arising out of the attorney's representation of the plaintiff does not accrue during the period of that representation. . . .

Although this court has determined that Kurnit did not act as the Croces' attorney at the signing of the contracts, he did thereafter serve as their attorney in related and unrelated matters. Indeed, in the retainer statement dated October 4, 1973, to the Judicial Conference of the State of New York referred to above, Kurnit himself stated that his representation commenced in 1968, after the execution of the contracts on September 18.

A lawyer's "various activities" on [a client's] behalf can be seen as part of a course of continuous representation concerning the same or related problem. . . . Although representing the Croces in a lease dispute is not related to the contracts, the representation of the Croces by Kurnit stems from their relationship arising from the contracts. Moreover, Kurnit's listing on the ASCAP application, his correspondence signed as "attorney-in-fact" regarding the songwriting contract and his assistance in resolving claims with the Croce's then-manager indicate continuous representation concerning the performance of the contracts. Kurnit's representation of the Croces on unrelated matters emphasizes the trust and reliance that the Croces placed in Kurnit as their attorney. Consequently, I conclude that Kurnit's representation to the New York Judicial Conference sets the date for the beginning of the tolling period as September 18, 1968.

Kurnit asserts, however, that Jim Croce's consultation of Cushman on March 19, 1970 ends the toll. The rationale for the continuous treatment doctrine lends credence to this assertion. Because a "relationship between the parties is marked by trust and confidence . . . [because] there is presented an aspect of the relationship not sporadic but developing; . . . [and because] the recipient of the service is necessarily at a disadvantage to question the reason for the tactics employed or the manner in which the tactics are executed," the continuous treatment doctrine was extended to continuous representation. . . . However, Jim Croce's retention of Cushman in 1970 to attempt to terminate the contracts also terminated the continuing representation by Kurnit.

Mrs. Croce argues that any interruption of the toll by the retention of Cushman should end by December of 1970 when Jim Croce decided to work pursuant to the contracts and discontinued any relationship with Cushman. However, once Jim Croce consulted Cushman, he was no longer the disadvantaged client unable to question or to pursue remedies for perceived wrongs. He inquired of his right to terminate the contract and chose not to exercise them. Hence, I conclude that the statute of limitations began to run on March 19, 1970 and continued to run for three and one half years until Kurnit was appointed to represent the Estate of Jim Croce.

Nonetheless, once Jim Croce died, his Estate had the right to pursue whatever causes of action survived his death. By the September 26, 1973 appointment of Kurnit as counsel to the Estate, the relationship between the Estate and Kurnit was marked by confidence and trust, once again placing Kurnit in a fiduciary relationship and making the continuing representation doctrine applicable as to the Estate.

Moreover, in *Pet, Inc. v. Lustig*, 77 A.D.2d 455, 433 N.Y.S.2d 934, 935-36 (4th Dep't 1980), the court held that it "would not permit the statute of limitations to run where the one claiming the benefit of the statute is the one charged in law with the duty of asserting and enforcing the claim before the statute runs" (citations omitted). In the instant case, Kurnit asserts the statute of limitations as a bar to Mrs. Croce's claims. However, once he was appointed counsel for the Estate, he had the duty of asserting claims on behalf of the Estate. Although it

is understandable that Kurnit did not investigate or pursue claims against his own interest, he may not now claim the benefit of the statute of limitations.

Therefore I conclude that the statute of limitations was tolled for two years and nine months from September 26, 1973 until June, 1976 when Donnenfeld and Brent were substituted as counsel for the Estate. . . .

The statute of limitations ran for three and one half years from March 1970 to September 1973 and for two years and one month from June 1976 to July 21, 1978, the date on which this action was filed. Hence I conclude that this action is not barred by the statute of limitations.

3. *Unconscionability and Breach of Fiduciary Duty*

Mrs. Croce contends that the contracts were unconscionable. An unconscionable contract “affronts the sense of decency,” . . . and usually involves gross one-sidedness, lack of meaningful choice and susceptible clientele. J. Calamari & J. Perillo, *Contracts* § 9–40 (2d ed. 1977). A claim of unconscionability “requires some showing of ‘an absence of meaningful choice on the part of one of the parties together with contract terms which are unreasonably favorable to the other party.’” . . .

Additionally, Mrs. Croce alleges that defendants breached their fiduciary duty to the Croces. A fiduciary relationship is bound by a standard of fairness, good faith and loyalty. . . . Substantial testimony was adduced on the subject of the inherent conflict presented by the control of the management contract by the publisher. The management contract, of course, served only the interest of the artist, although obviously the interest of the artist and his career were inextricably interwoven with the publication and promotion of his product. For example, BNB, when undertaking the assignment to manage Croce, immediately obtained a royalty rate increase, of course, thus affecting its own compensation.

The significance of management contracts depends on the needs of artists, some of whom are entirely capable of performing all the business and promotion duties while others seek to concentrate solely on their artistic efforts. As the relationship developed, Croce depended on his manager significantly, but the conflict between the artist and the producer does not so completely overbalance the mutuality of their interest as to make management and recording contracts held or controlled by the same interests, as occurred here, in and of itself, determinative of the issues of unfairness and unconscionability. Indeed, it was Kurnit who ultimately arranged for a separate management contract, albeit that the contract with BNB barred the manager from urging the artist to terminate the contracts.

As the facts stated above indicate, the contracts were hard bargains, signed by an artist without bargaining power, and favored the publishers, but as a matter of fact did not contain terms which shock the conscience or differed so grossly from industry norms as to be unconscionable by their terms. The contracts were free from fraud and although complex in nature, the provisions were not formulated so as to obfuscate or confuse the terms. Although Jim Croce might have thought that he retained the right to choose whether to exercise renewal options, this misconception does not establish that the contracts were unfair. Because of the uncertainty involved in the music business and the high risk of failure of new performers, the contracts, though favoring the defendants, were not unfair. . . . Therefore, I conclude that the terms of the contracts were neither unconscionable nor unfair and that Cashman and West did not breach a fiduciary duty.

In considering procedural unconscionability this court notes that the instant situation lacks the elements of haste and high pressure tactics. . . . Indeed, they benefitted the Croces by millions of dollars. Thus Kurnit's actions do not rise to the level of procedural unconscionability. Kurnit, however, as a lawyer and principal, failed to advise the Croces to retain independent counsel and proceeded to give legal advice to the Croces in explaining the contracts to them. These actions, as discussed above, constitute a breach of the fiduciary duty Kurnit owed the Croces. . . .

4. *Remedy*

Mrs. Croce seeks rescission of the contracts or more specifically termination of the contracts on the date of judgment. Since Mrs. Croce sued for breach of contract in Counts 4, 5 and 6, defendants assert that she is barred from seeking rescission because of the doctrine of election of remedies, which prevents a party who pursued two inconsistent theories from obtaining duplicative relief.

Although the doctrine of election of remedies does not preclude rescission, I find that rescission is inappropriate on the facts of this case. The Second Circuit has recognized that rescission is an extraordinary remedy, *Canfield v. Reynolds*, 631 F.2d 169, 178 (2d Cir. 1980), which is granted only where the breach is found to be "material and willful, or, if not willful, so substantial and fundamental as to strongly tend to defeat the object of the parties in making the contract." . . .

The breach of fiduciary duty by Kurnit is not so fundamental as to defeat the intent or purpose of the contract.

Moreover, the contracts have been performed. In attempting to return to the status quo Mrs. Croce would have the defendants retain the money they received under the contracts as compensation for their services and return the master tapes and copyrights to her. Defendants oppose this remedy as unjust enrichment. Although this court has difficulty perceiving how the status quo ante could ever be determined, achieving this possibility does not make rescission appropriate when, as in the instant case, the breach of fiduciary duty is not a breach going to the root of the contract.

Mrs. Croce is, however, entitled to damages resulting from Kurnit's breach of fiduciary duty in failing to advise the Croces to seek independent counsel. Given the bifurcated nature of this lawsuit, and the fact that, but for Kurnit's breach, the second branch of Mrs. Croce's complaint, claiming fraud, unconscionability, and breach of fiduciary duty, would in all likelihood not have arisen, this court assesses Mrs. Croce's damages to be the costs and attorneys' fees expended in prosecuting those claims, and determines that Kurnit is liable for this amount.

**McCauley Music Ltd. v. Solomon, Ontario (Canada) Supreme Court,
No. 34849/79**

In an unreported case, a Toronto court imposed liability for negligence upon an entertainment lawyer for failure to advise a client of an impending option exercise date, although the lawyer had never represented the client with respect to the particular contract under which the option arose.

Dan Hill (who was later to achieve great success with the recording of his own composition "Sometimes When We Touch") became friendly with Matthew McCauley while at school. Dr. McCauley, Matthew's father, was a composer, conductor, and teacher, with a number of distinguished music industry credits.

The McCauleys became involved with Hill's career, absorbing his expenses and paying \$50,000 to create recordings of his performances. Hill became close friends with the McCauley family, and Matthew worked full time to promote Hill's career.

It became clear to the McCauleys that it would be appropriate for Hill to have separate legal representation, and through Fiedler (a manager whom Hill had met), Hill retained Solomon as his attorney. In May 1975, Hill (represented by Solomon) signed recording and music publishing contracts with the McCauleys, who were represented by an attorney named Newman (who represented the McCauleys in general matters).

The agreements provided for fixed terms of one year with four one-year options, each exercisable by written notice at least 15 days prior to the commencement of the next option year.

The McCauleys then decided to enter into a record distribution agreement with GRT, a Canadian manufacturer. Newman represented the McCauleys, Solomon represented GRT (as he had for the previous five years).

During the same month, Hill signed a management agreement with Finkelstein and Fiedler, who were represented by Solomon. Hill was unrepresented, but signed a letter (prepared by Solomon) that he had elected not to seek separate legal representation in connection with the management agreement.

The following month, Finkelstein & Fiedler succeeded in favorably renegotiating Hill's contract with the McCauley company, with Newman acting for the McCauley interests and Solomon for Hill. Later that year, the McCauleys (represented by Newman) negotiated an amendment to the GRT agreement (with GRT represented by Solomon).

At about this time, the McCauleys (according to Judge Carruthers) became "dissatisfied or disturbed with Newman's expertise in handling matters which related to the music business." Thereafter, Newman continued to act for the McCauleys with respect to "corporate affairs" and Solomon acted for them with respect to certain music matters (although it was a matter of dispute as to whether Newman also continued to represent them on some music matters).

The following year, Solomon represented the McCauleys in negotiating a foreign subpublishing agreement (which, of course, would also benefit Hill), which was to have a term of three years. During the second year of the subpublishing agreement, Solomon renegotiated the foreign subpublishing agreement, substituting a new contract with a three-year term (so that the overall subpublishing term would be five years). Under the new subpublishing agreement, the McCauley company received \$300,000, of which half went to Hill. That same year, Solomon negotiated a printed music license agreement on behalf of the McCauleys.

At about that time, Matthew asked Solomon to prepare summaries of all of McCauley Music's contracts relating to Hill, but Solomon (after consultation with Finkelstein) refused to do so.

During the summer of 1978, Finkelstein & Fiedler asked Solomon to review Hill's contracts with McCauley Music to determine whether they had lapsed because of McCauley's failure to formally exercise its options. (By this time, the agreements had been in effect for almost four years, and neither side had made an issue out of the fact that no option exercise notices had ever been given.) Thereafter, Queen's Counsel was retained to notify McCauley Music of Hill's

position that the agreements had lapsed. (Hill subsequently entered into a lucrative recording contract with a major U.S. record company.)

McCauley Music thereupon sued, claiming (1) that Finkelstein & Fiedler, Hill, and Solomon were estopped by their conduct from asserting lapse on the basis of absence of notice, (2) that Finkelstein & Fiedler had wrongfully induced Solomon to fail to advise McCauley Music to pick up its options (with Hill being vicariously liable for the actions of his managers), and (3) that Solomon was liable for negligence for failure to give such advice.

Hill and Finkelstein & Fiedler settled with McCauley after the first day of trial, and the case thereafter proceeded solely against Solomon. Solomon's defense stressed the fact that McCauley Music and Hill had always ignored the absence of formal notice, and asserted that the McCauleys could have pressed the issue of the continuing vitality of the Hill/McCauley agreements. In addition, the defense asserted that Newman had the responsibility of advising the McCauleys on option dates (since Newman had prepared the agreements for the McCauleys and Solomon had never acted for the McCauleys vis-à-vis Hill), and that Dr. McCauley's experience in the music business was such that he, too, was or should have been aware of them.

On the issue of McCauley's acquiescence in Hill's departure, Judge Carruthers stated "I do not think it lies in Solomon's mouth now to maintain or suggest that Hill may not in law be entitled to have terminated the agreements. It was Solomon who, at the urging of Finkelstein & Fiedler, brought about this situation." Although indicating that "it would have been better" if Newman had specifically directed Dr. McCauley's attention, at the time the contracts were executed, to the need to "diarize" option dates, Judge Carruthers did not consider this negligence on Newman's part so as to make Newman liable for McCauley's damages. The problem, according to Judge Carruthers, lay in the fact that after the McCauleys felt it necessary to go beyond Newman in "music matters, . . . Solomon accepted them as clients on many occasions. From the point of the McCauleys, Solomon thereafter provided the legal assistance they needed in this area of their endeavours. Whether he was to work under a general retainer or not is something I do not think ever entered their mind. When something came up in the music field that required the attention of a lawyer, they turned to Solomon. He never suggested that he could not help them, except once." The one instance, of course, was the request for the summaries of the Hill contracts.

The Court focused on the two occasions upon which Solomon had negotiated foreign subpublishing agreements for the McCauleys, and stated that "it was incumbent upon Solomon to satisfy himself that the [McCauley/Hill] publishing agreement . . . was and could continue to be in full force and effect for the period provided for therein, before beginning to negotiate for and obtain a 'subpublishing' agreement." The Court mentioned the fact that by his own admission, Solomon had considered the option provisions of the McCauley/Hill agreement to some degree at the time of the negotiations (although Solomon stated that he only did so to satisfy himself that sufficient album commitments remained under the McCauley/Hill agreement to satisfy the requirements of the subpublishing agreement). He admitted that he overlooked the requirement that Hill be paid \$5000 in connection with the option exercises for 1977 and 1978. On cross-examination:

Q. You just never addressed your mind at all. The question is: Would you now regard it as your duty to give [the McCauleys] advice in that respect having just

negotiated a valuable contract for them that depended on their keeping alive the McCauley/Hill agreements?

A. Yes.

Q. All right. And you failed in that duty, didn't you, because you forgot about it?

A. Yes.

[The Court found that even if Solomon had never been involved with Hill or Finkelstein & Fiedler, he would have been under this duty with respect to the McCauleys (a position the Court found supported by an expert witness called on behalf of Solomon). Further, the Court stated:]

. . . I am sure that had he been free to do so, Solomon would have done what was necessary because that would be in keeping with the spirit of the relationship which had existed between the McCauleys and Hill from the outset of their getting together. Unfortunately for the McCauleys, at least, Solomon was beholden to others and in particular Finkelstein & Fiedler. If Solomon ever possessed any thought of correcting the situation, it was wiped from his mind by his telephone conversations with Finkelstein & Fiedler. Their object was obviously to cut McCauley Music out of Hill's career and all that went with it. . . . Rather than disassociate himself with this position, which under the circumstances, in my opinion, he should have done, Solomon helped Finkelstein & Fiedler to gain their object.

[Judge Carruthers went on to note that the McCauleys were at all times aware that Solomon represented Hill, Finkelstein & Fiedler, and GRT, and that Matthew's view was that it was the McCauleys' responsibility to consider conflict-of-interest issues. However, Judge Carruthers stated that "it is not the responsibility of the client to be concerned about conflict of interest or potential conflict of interest. It is the concern of the solicitor. . . ."

The problem, however, did not stem from conflict of interest, according to Judge Carruthers, but, rather from the fact that Solomon "purely and simply did not do that which he was required to do on his admission and for that reason alone he is liable to McCauley Music for whatever damage it has sustained by reason of that failure." For this reason, Judge Carruthers declined to award punitive damages and referred the case to a special master to determine actual damages.]

1.2.2 Additional Hazards for Counsel

The ethical problems discussed in the preceding section are not the only concerns which entertainment lawyers face. It is axiomatic that an attorney is required to represent a client zealously. However, the entertainment industries are full of powerful companies whose leaders are often upset by lawyers they perceive as overly aggressive. In such a situation, an executive may yield to the urge to punish an attorney for what may in truth be simply a case of the attorney seeking to secure the best possible deal for a client. The long history of litigation between Don Engel and CBS, Inc. is instructive in this area. Engel represented Tom Scholz, the leader of a rock group named Boston. Although Boston had enormous early success, there was ultimately a falling-out between Scholz and Walter Yetnikoff, then Chairman of CBS Records. CBS sued Scholz, the group, and the group's former manager in New York, seeking \$20,000,000 in damages. Meanwhile, Engel, taking the position that the term of Scholz's agreement with

CBS Records had terminated, sought offers from other labels and ultimately negotiated a deal for Scholz at MCA Records whereupon CBS commenced a second suit in New York, this time against Scholz, the band, the band's new manager, MCA Records, and Engel. After winning a summary judgment in the New York action with respect to the cause of action against him (he ultimately recovered \$6.5 million from CBS for his client as well,) Engel (whose practice was—and remains—bicoastal) sued CBS and its attorneys in California for malicious prosecution. The long history of this litigation is summarized in the opinion of the New York Court of Appeal in *Engel v. CBS, Inc.*, 93 N.Y.2d 195, 1999 WL 185099 (1999), which answered a question referred to the Court of Appeal by the Second Circuit, which, relying upon such response, affirmed the decision of the Southern District granting summary judgment to the defendants. *Engel v. CBS, Inc.*, 182 F.3d 124 (2d Cir. 1999).

Engel had sued in California because earlier New York case law indicated that in order for an attorney to recover for malicious prosecution, the attorney would have to demonstrate that the defendant had interfered with the attorney's person or property via a "provisional remedy" such as an arrest. California had no such rule. However, New York law was deemed applicable, and the case ultimately wound up in New York. The New York Court of Appeal rejected the idea that an attorney had to suffer under a "provisional remedy," but nonetheless required "special injury," some "concrete harm that is considerably more cumbersome than the physical, psychological or financial demands of defending a lawsuit." This would achieve "the balance required between discouraging excess litigation on the one hand and prohibiting the malicious use of the courts on the other." Nor would the court carve out a special rule applicable to suits against attorneys. Turning to the particular case in hand, the Court of Appeal found that although Engel and his clients had been put to additional expenditures of time and money, "the burden did not form the critical mass necessary to be cognizable as special injury." Although CBS's actions were "reprehensible," Engel's practice and reputation did not suffer (indeed, they were, if anything, considerably enhanced by his courage and tenacity).

Thus, Engel achieved a victory of sorts—for lawyers following after him. However, it is clear that punitive tactics by entertainment companies against attorneys are still cause for concern.

NOTES

1. For an inside look at the early history of this case, see Don Engel, "Anatomy of a Little Murder," 1997–98 *Entertainment, Publishing and The Arts Handbook* 277 (St. Paul: West Group, 1997).

2. One of Don Engel's concerns was that defending the action against him might put him in a conflict of interest vis a vis Scholz. Despite this, as the court observed, Engel was able to discharge his duties to Scholz with total effectiveness. However, attorneys also need to be concerned with matters which do not involve conflicts. "Complaints to grievance committees about attorney conduct have escalated in recent years, and neglect has been one of the most common complaints." Dana D. Peck and James J. Coffey, "Unhappy Clients May Lodge Complaints of Neglect Even When Malpractice Is Not an Issue," *NY State Bar J.* May/June 1999, p. 47. See DR 6–101(a)(3) [22 NYCRR §1200.30]; ABA Model Rule 1.3; CA Rule 3–110.

3. Nor are conflicts with clients the only cause for concern. Attorneys change firms with increasing frequency. "[A] modern-day law firm fixture [is] the revolving door." *Grau-*

bard Mollen Dannett & Horowitz v. Moskowitz, 86 N.Y.2d 112, 629 N.Y.S. 2d 1009(1995). However, law partners owe each other a fiduciary duty of loyalty (which, of course, must be balanced by their duties to their clients.) In this case, the firm's partnership agreement (to which the defendant was a party) was designed to make the firm's clients "institutional" rather than linked to a specific attorney; in this way, the members of the firm could expose their clients to other attorneys in the firm without (at least in theory) risking losing those clients in case of attorney defection. While the *Graubard* decision permits a departing lawyer to inform his/her clients about a change of firm affiliation, "preresignation surreptitious" solicitation of clients is actionable.

4. Of course, an attorney who makes a lateral move and wishes to bring pre-existing clients along must take care that this will not cause a conflict with the clients of the firm to which the attorney moves. See Ellen R. Peck, "Career Transitions," *California Lawyer*, March 2000, p. 64.

5. Ethics materials are available from the following websites: www.law.cornell.edu/ethics/listing.html (state-by-state), www.findlaw.com/01topics/14ethics/bars.html and www.legalethics.com. ABA resources include its Center for Professional Responsibility, www.abanet.org/cpr/home.html, as well as summaries of ethics opinions, www.abanet.org/cpr/ethicopinions.html.

1.3 AGENTS AND MANAGERS

1.3.1 Union Regulation of Agents

In the theatre, films and television, the activities of agents and unions are closely interrelated. Although the collective bargaining agreements by which employment in these industries are governed are negotiated directly between the unions and the producers, the overwhelming majority of working performers in these industries are represented by agents, who, in turn, are heavily regulated by the unions through their "franchising" systems, i.e., licenses under which agents agree to abide by specific union regulations. If an agent lacks a union "franchise," the members of the subject union are not permitted to engage that agent to represent them. One of the principal points upon which a union will insist is that the agent not commission minimum salaries, i.e., "scale" payments, or amounts received by way of reimbursement for such items as travel expenses in connection with work.

In *H.A. Artists & Associates, Inc. v. Actors' Equity Ass'n*, 451 U.S. 704 (1981), the Supreme Court upheld the legality of Actor's Equity Association's franchise system against an attack by an association of theatrical agents under the antitrust laws, specifically §§ 1 and 2 of the Sherman Act, 26 Stat. 209, as amended, 15 U.S.C. §§ 1 and 2. In an opinion by Mr. Justice Stewart, upholding the trial court's finding that Equity was protected by the statutory exemption from the application of the antitrust laws, the Court characterized agents as "independent contractors who negotiate contracts and solicit employment for their clients [and] do not participate in the negotiation of collective-bargaining agreements between Equity and the theatrical producers." The existence of the franchise system was not due to a conspiracy between Equity and theatrical producers, or between Equity and the organization representing the agents. It was essentially a reflection of the exigencies of the business. "[A]n actor without an agent does not have the same access to producers or the same opportunity to be seriously considered for a part as does an actor who has an agent. Even principal interviews, in which producers are required to interview all actors who want to be considered for

principal roles, do not eliminate the need for an agent, who may have a greater chance of gaining an audition for his client. . . . [and the absence of an agent means that] an actor would have significantly lesser chances of gaining employment.” Moreover, said the Court, the Second Circuit had been correct in “[r]elying on *Musicians v. Carroll*, 391 U.S. 99 [to conclude] that the agents were themselves a “labor group,” because of their substantial “economic interrelationship” with Equity, under which “the union [could] not eliminate wage competition among its members without regulation of the fees of the agents.” 622 F.2d, at 650, 651. Accordingly, since the elimination of wage competition is plainly within the area of a union’s legitimate self-interest, the court concluded that the exemption was applicable.”

1.3.2 State Regulation of Agents

Both New York and California, the states with the largest concentrations in the entertainment industries, have enacted legislation to control agents. At one time, the California statute seemed to be directed at personal managers as well, but a closer reading reveals that the statute applies only when the personal manager is in fact engaged in, or committed to, seeking employment for the artist. The language of the California statute was amended in the late 1970s to reflect more accurately that agents are the ones being controlled.

Both states require licensing of agents. To be an agent and yet fail to register and be licensed can carry severe consequences, as the statutes set forth in this section reveal. Both licensed and unlicensed agents are affected by the legislation in these two jurisdictions. However, they are affected differently, and statutory and administrative exceptions provide considerable latitude.

Starting with the prototype, New York, a small but growing number of state legislatures (most recently, Minnesota, in Minn. Stat. Ch. 184A, Entertainment Services, enacted in 1993), have adopted statutes to regulate the activities of “agents.” But who is an agent is open to question. For example, in the *Pine* case, a “one-shot” effort at securing a recording contract resulted in a decision that the “finder” was an agent, whereas in the *Mandel* case an attorney was found to be a manager rather than an unlicensed agent.

This section presents portions of the relevant New York and California statutes, then proceeds to consideration of pertinent parts of the statutes themselves and cases interpreting the statutes.

1.3.2.1 New York General Business Law

§ 170. Application of article

This article shall apply to all employment agencies in the state.

§ 171. Definitions

Whenever used in this article:

1. “Commissioner” means the industrial commissioner of the state of New York, except that in the application of this article to the city of New York the term “commissioner” means the commissioner of licenses of such city.

2. a. “Employment agency” means any person (as hereinafter defined) who, for a fee, procures or attempts to procure:

(1) employment or engagements for persons seeking employment. . . .

3. “Fee” means anything of value, including any money or other valuable consideration charged, collected, received, paid or promised for any service, or act rendered or to be rendered by an employment agency. . . .

7. “Person” means any individual, company, society, association, corporation, manager, contractor, subcontractor, partnership, bureau, agency, service, office or the agent or employee of the foregoing.

8. “Theatrical employment agency” means any person . . . who procures or attempts to procure employment or engagements for circus, vaudeville, the variety field, the legitimate theater, motion pictures, radio, television, phonograph recordings, transcriptions, opera, concert, ballet, modeling or other entertainments or exhibitions or performances, but such term does not include the business of managing such entertainments, exhibitions or performances, or the artists or attractions constituting the same, where such business only incidentally involves the seeking of employment therefor.

9. “Theatrical engagement” means any engagement or employment of a person as an actor, performer or entertainer in employment. . . .

§ 172. License required

No person shall open, keep, maintain, own, operate or carry on any employment agency unless such person shall have first procured a license therefore as provided in this article. Such license shall be issued by the commissioner of labor, except that if the employment agency is to be conducted in the city of New York such license shall be issued by the commissioner of consumer affairs of such city. Such license shall be posted in a conspicuous place in said agency.

§ 173. Application for license . . .

b. The application for a license shall be accompanied by samples or accurate facsimiles of each and every form which the applicant for a license will require applicants for employment to execute, and such forms must be approved by the commissioner before a license may be issued. The commissioner shall approve any such forms which fairly and clearly represent contractual terms and conditions between the proposed employment agency and applications for employment, such as are permitted by this article . . .

§ 174. Procedure upon application; grant of license

1. Upon the receipt of an application for a license, the commissioner shall cause the name and address of the applicant, the name under which the employment agency is to be conducted, and the street and number of the place where the agency is to be conducted, to be posted in a conspicuous place in his public office. Such agency shall be used exclusively as an employment agency and for no other purpose, except as hereinafter provided. The commissioner shall investigate or cause to be investigated the character and responsibility of the applicant and agency manager and shall examine or cause to be examined the premises designated in such application as the place in which it is proposed to conduct such agency. The commissioner shall require all applicants for licenses and agency managers to be fingerprinted.

2. Any person may file, within one week after such application is so posted in the said office, a written protest against the issuance of such license. Such protest shall be in writing and signed by the person filing the same or his authorized agent or attorney, and shall state reasons why the said license should not be

granted. Upon the filing of such protest the commissioner shall appoint a time and place for the hearing of such application, and shall give at least five days' notice of such time and place to the applicant and the person filing such protest. . . . If it shall appear upon such hearing or from the inspection, examination or investigation made by the commissioner that the applicant or agency manager is not a person of good character or responsibility; or that he or the agency manager has not had at least two years experience as a placement employee, vocational counsellor or in related activities, or other satisfactory business experience which similarly tend to establish the competence of such individual to direct and operate the placement activities of the agency; or that the place where such agency is to be conducted is not a suitable place therefor; or that the applicant has not complied with the provisions of this article; the said application shall be denied and a license shall not be granted. Each application should be granted or refused within thirty days from the date of its filing. . . .

§ 176. *Assignment or transfer of license; change of location; additional locations*

A license granted as provided in this article shall not be valid for any person other than the person to whom it is issued or any place other than that designated in the license and shall not be assigned or transferred without the consent of the commissioner. . . . The location of an employment agency shall not be changed without the consent of the commissioner, and such change of location shall be indorsed upon the license. . . .

§ 185. *Fees*

1. Circumstances permitting fee. An employment agency shall not charge or accept a fee or other consideration unless in accordance with the terms of a written contract with a job applicant. . . . The maximum fees provided for herein for all types of placements or employment may be charged to the job applicant and a similar fee may be charged to the employer. . . .

2. Size of fee; payment schedule. The gross fee charged to the job applicant and the gross fee charged to the employer each shall not exceed the amounts enumerated in the schedules set forth in this section, for any single employment or engagement, except as hereinabove provided; and such fees shall be subject to the provisions of section one hundred eighty-six of this article. . . .

4. Types of employment. For the purpose of placing a ceiling over the fees charged by persons conducting employment agencies, types of employment shall be classified as follows: . . . Class "C"—theatrical engagements; . . .

8. Fee ceiling: For a placement in class "C" employment the gross fee shall not exceed, for a single engagement, ten per cent of the compensation payable to the applicant, except that for employment or engagements for orchestras and for employment or engagements in the opera and concert fields such fees shall not exceed twenty per cent of the compensation. . . .

§ 187. *Additional prohibitions*

An employment agency shall not engage in any of the following activities or conduct:

(1) Induce or attempt to induce any employee to terminate his employment in order to obtain other employment through such agency; . . . or procure or attempt to procure the discharge of any person from his employment.

(2) Publish or cause to be published any false, fraudulent or misleading information, representation, promise, notice or advertisement. . . .

(5) Send or cause to be sent any person to any employer where the employment agency knows, or reasonably should have known, that the prospective employment is or would be in violation of state or federal laws governing minimum wages or child labor, or in violation of article sixty-five of the education law relating to compulsory education or article four of the labor law, or, that a labor dispute is in progress, without notifying the applicant of such fact, and delivering to him a clear written statement that a labor dispute exists at the place of such employment, or make any referral to an employment or occupation prohibited by law.

(6) Send or cause to be sent any person to any place which the employment agency knows or reasonably should have known is maintained for immoral or illicit purposes; nor knowingly permit persons of bad character, prostitutes, gamblers, procurers or intoxicated persons to frequent such agency. . . .

(8) Engage in any business on the premises of the employment agency other than the business of operating an employment agency, except as owner, manager, employee or agent, the business of furnishing services to employers through the employment of temporary employees. . . .

§ 189. Enforcement of provisions of this article

1. This article shall be enforced by the commissioner of labor, except that in the city of New York this article and such sections shall be enforced by the commissioner of consumer affairs of such city.

2. To effectuate the purposes of this article, the commissioner or any duly authorized agent or inspector designated by such commissioner, shall have authority to inspect the premises, registers, contract forms, receipt books, application forms, referral forms, reference forms, reference reports and financial records of fees charged and refunds made of each employment agency, which are essential to the operation of such agency, and of each applicant for an employment agency license, as frequently as necessary to insure compliance with this article and such sections; but in no event shall any employment agency be inspected less frequently than once every eighteen months. The commissioner shall also have authority to subpoena records and witnesses or otherwise to conduct investigations of any employer or other person where he has reasonable grounds for believing that such employer or person is violating or has conspired or is conspiring with an employment agency to violate this article or such sections.

3. To effectuate the purposes of this article, the commissioner may make reasonable administrative rules within the standards set in this article. . . .

4. Complaints against any such licensed person shall be made orally or in writing to the commissioner, or be sent in an affidavit form without appearing in person, and may be made by recognized employment agencies, trade associations, or others. The commissioner may hold a hearing on a complaint with the powers provided by section one hundred seventy-four of this article. . . . A daily calendar of all hearings shall be kept by the commissioner and shall be posted in a conspicuous place in his public office for at least one day before the date of such hearings. The commissioner shall render his decision within thirty days from the time the matter is finally submitted to him. The commissioner shall keep a record of all such complaints and hearings.

5. Following such hearing if it has been shown that the licensed person or his agent, employee or anyone acting on his behalf is guilty of violating any provision of this article or is not a person of good character and responsibility, the commissioner may suspend or revoke the license of such licensed person and/ or levy a fine against such licensed person for each violation not to exceed \$500. Whenever such commissioner shall suspend or revoke the license of any employment agency, or shall levy a fine against such agency, said determination shall be subject to judicial review in proceedings brought pursuant to article seventy-eight of the civil practice law and rules. Whenever such license is revoked, another license or agency manager permit shall not be issued within three years from the date of such revocation to said licensed person or his agency manager or to any person with whom the licensee has been associated in the business of furnishing employment or engagements. . . .

§ 190. Penalties for violations

Any person who violates and the officers of a corporation and stockholders holding ten percent or more of the stock of a corporation which is not publicly traded, who knowingly permit the corporation to violate sections one hundred seventy-two, one hundred seventy-three, one hundred seventy-six, one hundred eighty-four, one hundred eighty-four-a, one hundred eighty-five, one hundred eighty-five-a, one hundred eighty-six, or one hundred eighty-seven of this article shall be guilty of a misdemeanor and upon conviction shall be subject to a fine not to exceed one thousand dollars, or imprisonment for not more than one year, or both, by any court of competent jurisdiction. The violation of any other provision of this article shall be punishable by a fine not to exceed one hundred dollars or imprisonment for not more than thirty days. Criminal proceedings based upon violations of these sections shall be instituted by the commissioner and may be instituted by any persons aggrieved by such violations.

Pine v. Laine, 321 N.Y.S.2d 303 (1st Dept. 1971)

PER CURIAM

Order of the Supreme Court, New York County, entered on September 30, 1970, denying defendant's motion for summary judgment, unanimously reversed, on the law, the motion granted, and the complaint dismissed. The Clerk is directed to enter judgment in favor of defendant dismissing the complaint, with costs. Appellant shall recover of respondent \$50 costs and disbursements of this appeal.

Plaintiff sues for \$35,000 for work, labor, and services performed in arranging a recording contract between the defendant and ABC Records. The Court at Special Term determined that there was an issue of fact "as to whether the plaintiff was acting as an employment agency or as the personal manager of the defendant when he performed the alleged services for the defendant. . . ."

Inasmuch as the plaintiff was not licensed as an employment agency pursuant to Article 11 of the General Business Law, unless he comes within the exception of § [171 (8)] as a personal manager where the seeking of employment is only incidental to the business of managing, he may not recover. See *Mandel v. Liebman*, 303 N.Y. 88, 100 N.E.2d 149 (1951).

It is clear that the defendant had a manager, and that the only service performed by the plaintiff, although he sought to become the manager of the defendant, was this one procurement of a recording contract.

Under the circumstances, plaintiff cannot come within the exception.

NOTES

1. It has been observed that while New York law has been interpreted to provide only a single exemption to licensing under the statute (that permitted for “incidental bookings”), the statute’s language appears to contemplate two exceptions: First, there is the “business of managing . . . artists or attractions.” In addition, it has been argued that the statute’s language (“but such term does not include the business of managing”) could be held to apply to nonmanagers such as producers, directors, or others who actually manage the *entertainment or performance* (as distinguished from managing, the *actual performer*). See Donald S. Zakarin, “Litigation Between Artists and Managers,” in *Entertainment Litigation* (1988) (ABA Forum Committee on the Entertainment and Sports Industries, 750 No. Lakeshore Dr., Chicago, Ill. 60611).

2. Although, as will be seen below, California provides exclusive original jurisdiction over talent agency disputes to the Labor Commission, New York has no such statutory procedure and such questions must be resolved via the court system. However, if a licensed talent agent is involved, revocation of the agent’s license can be a powerful lever for the complaining client. Since revocation of a license by an administrative agency is a quasi-judicial act, *Matter of 125 Bar Corp. v. State Liquor Authority*, 24 N.Y.2d 174 (1969), the “substantial evidence” test applies, *Matter of Older v. Board of Education*, 27 N.Y.2d 333, 337 (1941).

Mandel v. Liebman, 100 N.E.2d 149 (N.Y. 1951)

[Max Liebman began his career staging weekend musical revues at a summer camp in the Poconos. He moved on to produce “Your Show of Shows,” 90 minutes live every Saturday night, certainly the preeminent variety show in the early years of TV and, arguably, still the best ever. In 1946, prior to his immense success in TV, Liebman signed a contract with Mandel, a nonpracticing attorney engaged in the business of personal management. The contract provided that Mandel would act as Liebman’s “personal representative and manager” for five years for compensation of 10 percent of gross receipts from contracts entered into during the term as well as those extending beyond the term. The agreement also provided that any income which might accrue to Liebman from the entertainment business thereafter “shall be due to the opportunities now procured for him” by Mandel.]

Mandel had no express duties under the agreement. While the agreement stated that Liebman “hereby employs” Mandel “to use his ability and experience as such manager and personal representative in the guidance and furtherance” of Liebman’s career, and “to advise him in connection with all offers of employment and contracts for services, and conclude for him such contracts,” the contract went on to state that Mandel “shall only devote as much time and attention to the activities and affairs” of Liebman as Mandel’s “opinion and judgment . . . deems necessary.”

Two years later, the parties argued, and Mandel brought an action to recover unpaid commissions. The lower court dismissed his complaint on the grounds that the contract was an attorney’s retainer agreement, and that a client has the right to discharge his attorney at any time, with or without cause, subject to payment of quantum meruit for services rendered. The appellate division upheld the dismissal on the grounds that the agreement was unconscionable and therefore void as against public policy, because “the plaintiff was not required to render any services to defendant . . . and yet defendant was required to pay plaintiff ‘what might be called a tribute in perpetuity.’”

The Court of Appeals reversed and ordered a new trial.]

CONWAY, J.

It is commonplace, of course, that adult persons, suffering from no disabilities, have complete freedom of contract and that the courts will not inquire into the adequacy of the consideration. . . .

Despite the general rule, courts sometimes look to the adequacy of the consideration in order to determine whether the bargain provided for is so grossly unreasonable in the light of the mores and business practices of the time and place as to be unenforceable according to its literal terms. . . . It has been suggested that an unconscionable contract is one “such as no man in his senses and not under a delusion would make on the one hand, and as no honest or fair man would accept on the other.” . . .

There might be some force to the claim of unconscionability in the case at bar if the contract could properly be construed as was done by the majority in the Appellate Division. . . . We do not think that that is a permissible construction under our decisions. See *Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 90–91. . . . Even if the contract had merely provided that plaintiff was employed “as personal representative and manager,” with no further description of his duties, that would have been sufficient, for it could be shown that to these parties, in a specialized field with its own peculiar customs and usages, that phrase was enough to measure the entire extent of plaintiff’s required services. . . .

The further provision . . . that plaintiff “shall only devote so much time and attention to [defendant’s] activities and affairs . . . as the opinion and judgment [of plaintiff] deems necessary” must be given a reasonable interpretation consonant with the purpose of the contract. . . . The provision seems merely to constitute an attempt on the part of plaintiff to protect himself from excessive and unreasonable demands upon his time. See *Meyers v. Nolan*, . . . 18 Cal. App. 2d at page 323, 63 p. 2d at page 1217, where it was said: “The fact that the contract provided that the managers could devote as much time to defendant’s affairs as they deemed necessary does not destroy its mutuality. The very nature of the business of the parties was such that representation of other actors was to be expected. The clause was evidently inserted to avoid any misunderstanding on the subject and to more clearly define the rights and obligations of the managers.” Of course, as defendant urges, it is theoretically possible that plaintiff, under this provision, could deem it necessary to devote no time to the activities and affairs of defendant, but in that event, it is clear that plaintiff would not be performing the contract but would be breaching it and foregoing his right to compensation.

Since plaintiff, as we hold, was required to render some service to defendant under the contract, it cannot be said that the contract was unconscionable. . . . It is not for the court to decide whether defendant made a good or bad bargain. We fail to see how the contract can be described as one “such as no man in his senses . . . would make” and “no honest or fair man would accept” . . . or one which would “shock the conscience and confound the judgment of any man of common sense” . . . or even one which is “so extreme as to appear unconscionable according to the mores and business practices of the time and place” (1 *Corbin on Contracts*, sec. 128, p. 400), particularly since, as we are told, without denial the contract of May 8, 1946, is similar in most respects to contracts in current and general use in the entertainment industry. . . .

There is thus no need at this time to discuss the measure of compensation provided in the contract which the Appellate Division characterized as “a tribute

in perpetuity.” We note only, without passing upon the matter, that a question may be raised as to the validity or enforceability of one provision relating to compensation. Defendant agreed that any future earning of his in the entertainment world “shall be due to the opportunities now procured for him” by plaintiff. This provision would seem to create a conclusive presumption that any employments obtained by defendant during the term of the contract, and any continuance or renewal thereof thereafter, shall be deemed to have been due to the efforts of plaintiff, entitling the latter to the agreed percentage thereon. Somewhat comparable provisions have been held unenforceable. . . . The question, however, is not presented on this record for, while defendant did testify as to the amount of his earnings for the year in question and the different sources thereof, there was no evidence as to which sources were referable to plaintiff’s advice, guidance and assistance, and which were not. . . .

Finally, we do not think that the contract of May 8, 1946, at least upon its face, may be held to be a retainer agreement between attorney and client with respect to some matter in controversy under which the client may discharge the attorney at any time. . . . Here, plaintiff was employed as defendant’s personal representative and manager, a position which might well have been filled by a nonlawyer. As a lawyer, plaintiff might be called upon to use his legal training in handling defendant’s affairs, but that is not sufficient, as a matter of law, to transform an otherwise binding contract of employment into a contract at will on the part of the employer. . . .

Likewise, it cannot be said as a matter of law that the contract was illegal and void for the reason that plaintiff, in violation of section 172 of the General Business Law, Consol. Laws, c. 20, was conducting a theatrical employment agency without a license therefor. By express exemption in subdivision 4 of section 171 of the General Business Law, a person engaged in the business of managing “entertainments, exhibitions or performances, or the artists or attractions constituting the same, where such business only incidentally involves the seeking of employment therefor” is not required to be licensed. . . . It was specifically provided that “this contract does not in any way contemplate that [Mandel] shall act as agent for the purpose of procuring further contracts or work for [Liebman],” that [Mandel] was “not required in any way to procure” such contracts or work, and that in the event [Liebman] “needs additional employment or work then an agent shall be employed by [Liebman] to procure such employment, and the services of said agent shall be separately paid for” by defendant. . . .

1.3.2.2 California Labor Code

(as amended by AB 1901, enacted September 1994)

Article 1: Scope and Definitions

§ 1700.1. Definitions—Engagements

As used in this chapter:

(a) “Theatrical engagement” means any engagement or employment of a person as an actor, performer, or entertainer in a circus, vaudeville, theatrical, or other entertainment, exhibition, or performance.

(b) “Motion picture engagement” means any engagement or employment of a person as an actor, actress, director, scenario, or continuity writer, camera man, or in any capacity concerned with the making of motion pictures.

(c) “Emergency engagement” means an engagement which has to be performed within 24 hours from the time when the contract for such engagement is made.

§1700.2. Fee Defined

(a) As used in this chapter, “fee” means:

- (1) Any money or other valuable consideration paid or promised to be paid for services rendered or to be rendered by any person conducting the business of a talent agency under this chapter.
- (2) Any money received by any person in excess of that which has been paid out by him for transportation, transfer of baggage, or board and lodging for any applicant for employment.
- (3) The difference between the amount of money received by any person who furnished employees, performers, or entertainers for circus, vaudeville, theatrical, or other entertainments, exhibitions, or performances, and the amount paid by him to such employee, performer, or entertainer. . . .

§ 1700.3. License, Licensee—Defined

As used in this chapter:

(a) “License” means a license issued by the Labor Commissioner to carry on the business of a talent agency under this chapter.

(b) “Licensee” means a talent agency which holds a valid, unrevoked, and unforfeited license under this chapter.

§ 1700.4. Talent Agency, Artists—Defined

(a) “Talent agency” means a person or corporation who engages in the occupation of procuring, offering, promising, or attempting to procure employment or engagements for an artist or artists, except that the activities of procuring, offering, or promising to procure recording contracts for an artist or artists shall not of itself subject a person or corporation to regulation and licensing under this chapter. Talent agencies may, in addition, counsel or direct artists in the development of their professional careers.

“Artists” means actors and actresses rendering services on the legitimate stage and in the production of motion pictures, radio artists, musical artists, musical organizations, directors of legitimate stage, motion picture and radio productions, musical directors, writers, cinematographers, composers, lyricists, arrangers, and other artists and persons rendering professional services in motion picture, theatrical, radio, television and other entertainment enterprises.

Article 2: Licenses

§ 1700.5. Talent Agency—Must Obtain License

No person shall engage in or carry on the occupation of a talent agency without first procuring a license therefor from the Labor Commissioner. Such license shall be posted in a conspicuous place in the office of the licensee. . . .

§ 1700.6. License Application—Contents . . .

The application must be accompanied by two sets of fingerprints of the applicant and affidavits of at least two reputable residents, who have known, or been

associated with, the applicant for two years, of the city or county in which the business of the talent agency is to be conducted that the applicant is a person of good moral character or, in the case of a corporation, has a reputation for fair dealing.

§ 1700.7. License Applicants—Investigation

Upon receipt of an application for a license the Labor Commissioner may cause an investigation to be made as to the character and responsibility of the applicant and of the premises designated in such application as the place in which it is proposed to conduct the business of the talent agency. . . .

§ 1700.21. Revocation, Suspension of License—Grounds

The Labor Commissioner may revoke or suspend any license when it is shown that any of the following occur:

- (a) The licensee or his or her agent has violated or failed to comply with any of the provisions of this chapter, or
- (b) The licensee has ceased to be of good moral character, or
- (c) The conditions under which the license was issued have changed or no longer exist.
- (d) the licensee has made any material misrepresentation or false statement in his or her application for a license.

§ 1700.22. Revocation, Suspension of License—Hearing, Procedure

Before revoking or suspending any license, the Labor Commissioner shall afford the holder of such license an opportunity to be heard in person or by counsel. The proceedings shall be conducted in accordance with Chapter 5 (commencing at Section 11500) of Part I of Division 3 of Title 2 of the Government Code, and the commissioner shall have all the powers granted therein.

Article 3: Operation and Management

§ 1700.23. Contract Forms—Approval

Every talent agency shall submit to the Labor Commissioner a form or forms of contract to be utilized by such talent agency in entering into written contracts with artists for the employment of the services of such talent agency by such artists, and secure the approval of the Labor Commissioner thereof. Such approval shall not be withheld as to any proposed form of contract unless such proposed form of contract is unfair, unjust and oppressive to the artist. Each such form of contract, except under the conditions specified in Section 1700.45, shall contain an agreement by the talent agency to refer any controversy between the artist and the talent agency relating to the terms of the contract to the Labor Commissioner for adjustment. There shall be printed on the face of the contract in prominent type the following: "This talent agency is licensed by the Labor Commissioner of the State of California." . . .

§ 1700.25. Licensee to Deposit Funds on Behalf of Artist in a Trust Fund

(a) A licensee who receives any payment of funds on behalf of an artist shall immediately deposit that amount in a trust fund maintained by him or her in a bank or other recognized depository. The funds, less the licensee's commission, shall be disbursed to the artist within 30 days after receipt. However, notwith-

standing the preceding sentence, the licensee may retain the funds beyond 30 days of receipt in either of the following instances:

- (1) To the extent necessary to offset an obligation of the artist to the talent agency that is then due and owing.
- (2) When the funds are the subject of a controversy pending before the Labor Commissioner under Section 1700.44 concerning a fee alleged to be owed by the artist to the licensee.

(b) A separate record shall be maintained of all funds received on behalf of an artist and the record shall further indicate the disposition of the funds.

(c) If disputed by the artist and the dispute is referred to the Labor Commissioner, the failure of a licensee to disburse funds to an artist within 30 days of receipt shall constitute a “controversy” within the meaning of Section 1700.44.

(d) Any funds specified in subdivision (a) that are the subject of a controversy pending before the Labor Commissioner under Section 1700.44 shall be retained in the trust fund account specified in subdivision (a) and shall not be used by the licensee for any purpose until the controversy is determined by the Labor Commissioner or settled by the parties.

(e) If the Labor Commissioner finds, in proceedings under Section 1700.44, that the licensee’s failure to disburse funds to an artist within the time required by subdivision (a) was a willful violation, the Labor Commissioner may, in addition to other relief under Section 1700.44, order the following:

- (1) Award reasonable attorney’s fees to the prevailing artist.
- (2) Award interest to the prevailing artist on the funds wrongfully withheld at the rate of 10 percent per annum during the period of the violation.

(f) Nothing in subdivision (c), (d) or (e) shall be deemed to supersede Section 1700.45 or to affect the enforceability of a contractual arbitration provision meeting the criteria of Section 1700.45.

§ 1700.26. Records Required

Every talent agency shall keep records in a form approved by the Labor Commissioner, in which shall be entered the following:

- (1) The name and address of each artist employing such talent agency;
- (2) The amount of fee received from the artist;
- (3) The employment secured by the artist during the term of the contract between the artist and the agency, and the amount of compensation received by the artist pursuant thereto;
- (4) Other information which the Labor Commissioner requires.

No talent agency, its agent or employees, shall make any false entry in any such records . . .

§ 1700.32. Publication of Information, Advertisements

No talent agency shall publish or cause to be published any false, fraudulent, or misleading information, representation, notice, or advertisement. All advertisements of a talent agency by means of cards, circulars, or signs, and in news-

papers and other publications, and all letterheads, receipts, and blanks shall be printed and contain the licensed name and address of the talent agency and the words “talent agency.” No talent agency shall give any false information or make any false promises or representations concerning an engagement or employment to any applicant who applies for an engagement or employment.

§ 1700.33. Prohibited Employment

No talent agency shall send or cause to be sent, any artist to any place where the health, safety or welfare of the artist could be adversely affected, the character of which place the talent agency could have ascertained upon reasonable inquiry.

§ 1700.34. Minors—Sending to Saloons Prohibited

No talent agency shall send any minor to any saloon or place where intoxicating liquors are sold to be consumed on the premises.

§ 1700.35. Persons of Bad Character

No talent agency shall knowingly permit any persons of bad character, prostitutes, gamblers, intoxicated persons, or procurers to frequent, or be employed in, the place of business of the talent agency.

§ 1700.36. Applications from Children—Prohibited

No talent agency shall accept any application for employment made by or on behalf of any minor, as defined by subdivision (c) of Section 1286, or shall place or assist in placing any such minor in any employment whatever in violation of Part 4 (commencing with Section 1171).

§ 1700.37. Contracts with Minors—Disaffirmance

A minor cannot disaffirm a contract, otherwise valid, entered into during minority, either during the actual minority of the minor entering into such contract or at any time thereafter, with a duly licensed talent agency as defined in Section 1700.4 to secure him engagements to render artistic or creative services in motion pictures, television, the production of phonograph records, the legitimate or living stage, or otherwise in the entertainment field including, but without being limited to, services as an actor, actress, dancer, musician, comedian, singer, or other performer or entertainer, or as a writer, director, producer, production executive, choreographer, composer, conductor or designer, the blank form of which has been approved by the Labor Commissioner pursuant to Section 1700.23, where such contract has been approved by the superior court of the county where such minor resides or is employed.

Such approval may be given by the superior court on the petition of either party to the contract after such reasonable notice to the other party thereto as may be fixed by said court, with opportunity to such other party to appear and be heard.

§ 1700.38. Employment under Strike Conditions

No talent agency shall knowingly secure employment for an artist in any place where a strike, lockout, or other labor trouble exists, without notifying the artist of such conditions.

§ 1700.39. *Fee Division with Employer—Prohibited*

No talent agency shall divide fees with an employer, an agent or other employee of an employer.

§ 1700.40. *Fees—Repayment*

(a) No talent agency shall collect a registration fee. In the event that a talent agency shall collect from an artist a fee or expenses for obtaining employment for the artist, and the artist shall fail to procure such employment, or the artist shall fail to be paid for such employment, such talent agency shall, upon demand therefor, repay to the artist the fee and expenses so collected. Unless repayment thereof is made within 48 hours after demand therefor, the talent agency shall pay to the artist an additional sum equal to the amount of the fee.

(b) No talent agency may refer an artist to any person, firm or corporation in which the talent agency has a direct or indirect financial interest for other services to be rendered to the artist, including, but not limited to, photography, audition tapes, demonstration reels or similar materials, business management, personal management, coaching, dramatic school, casting or talent brochures, agency-client directories, or other printing.

(c) No talent agency may accept any referral fee or similar compensation from any person, association, or corporation, providing services of any type expressly set forth in subdivision (b) to an artist under contract with the talent agency. . . .

§ 1700.44. *Dispute Determination by Commissioner; Appeal*

(a) In cases of controversy arising under this chapter the parties involved shall refer the matters in dispute to the Labor Commissioner, who shall hear and determine the same, subject to an appeal within 10 days after determination, to the superior court where the same shall be heard de novo. . . .

(b) Notwithstanding any other provision of law to the contrary, failure of any person to obtain a license from the Labor Commissioners pursuant to this chapter shall not be considered a criminal act under any law of this state.

(c) No action or proceeding shall be brought pursuant to this chapter with respect to any violation which is alleged to have occurred more than one year prior to the commencement of the action or proceeding.

(d) It is not unlawful for a person or corporation which is not licensed pursuant to this chapter to act in conjunction with, and at the request of, a licensed talent agency in the negotiation of an employment contract.

§ 1700.45. *Contractual Arbitration Provisions—Validity*

Notwithstanding Section 1700.44, a provision in a contract providing for the decision by arbitration of any controversy under the contract or as to its existence, validity, construction, performance, nonperformance, breach, operation, continuance, or termination, shall be valid:

(a) If the provision is contained in a contract between a talent agency and a person for whom such talent agency under the contract undertakes to endeavor to secure employment, or

(b) If the provision is inserted in the contract pursuant to any rule, regulation, or contract of a bona fide labor union regulating the relations of its members to a talent agency, and

(c) If the contract provides for reasonable notice to the Labor Commissioner of the time and place of all arbitration hearings, and

(d) If the contract provides that the Labor Commissioner or his authorized representative has the right to attend all arbitration hearings.

Except as otherwise provided in this section, any such arbitration shall be governed by the provisions of Title 9 (commencing with Section 1280) of Part 3 of the Code of Civil Procedure.

If there is such an arbitration provision in such a contract, the contract need not provide that the talent agency agrees to refer any controversy between the applicant and the talent agency regarding the terms of the contract to the Labor Commissioner for adjustment, and Section 1700.44 shall not apply to controversies pertaining to the contract.

A provision in a contract providing for the decision by arbitration of any controversy arising under this chapter which does not meet the requirements of this section is not made valid by Section 1281 of the Code of Civil Procedure.

**Buchwald v. Superior Court of San Francisco, 62 Cal.Rptr. 364
(Cal.Ct.App. 1967)**

ELKINGTON, J.

[Matthew Katz signed the members of the Jefferson Airplane to management, recording and music publishing agreements. Disputes were to be resolved by arbitration under the rules of the American Arbitration Association. The band, however, sought to have the matter referred to the Labor Commissioner under the legislative antecedent of the Talent Agency Act. Katz objected, because he did not possess an agency license.]

The Act is a remedial statute. Statutes such as the Act are designed to correct abuses that have long been recognized and which have been the subject of both legislative action and judicial decision. . . . Such statutes are enacted for the protection of those seeking employment. . . .

Since the clear object of the Act is to prevent improper persons from becoming [agents] and to regulate such activity for the protection of the public, a contract between an unlicensed [agent] and an artist is void. . . . And as to such contracts, artists, being of the class for whose benefit the Act was passed, are not to be ordinarily considered as being *in pari delicto*. . . .

[Under the management agreement form, Katz,] for a percentage of each petitioner's earnings undertook, among other things, to act as "exclusive personal representative, advisor and manager in the entertainment field." The contract contained a provision reading: "It is clearly understood that you [Katz] are not an employment agent or theatrical agent, that you have not offered or attempted to promise to obtain employment or engagements for me, and you are not obligated, authorized or expected to do so." . . .

[Despite the contractual arbitration clause, the band] filed with the Labor Commissioner a "Petition to Determine Controversy," alleging among other things: "Complainants complain that in September of 1965, defendant [Matthew Katz] acting as an [agent] and through false and fraudulent statements and by duress, caused complainants to sign with defendant as an [agent]; that defendant, prior to the time of signing said contracts, promised the complainants and each of them that he would procure bookings for them; that defendant thereafter procured bookings for them; that defendant thereafter procured bookings for the

complainants and insisted that the complainants perform the bookings procured by him; that complainants sought to procure their own bookings, and that defendant refused them the right to procure their own bookings; that at the time that said contracts were negotiated, defendant Matthew Katz was not licensed as an [agent] . . . ; that the contract presented to each complainant was not submitted to the Labor Commissioner, State of California . . . ; that Matthew Katz has not performed in accordance with [various sections] of the Labor Code ; that Matthew Katz never rendered an accounting to the complainants for thousands of dollars received by Mr. Katz for their services; that Matthew Katz has not allowed complainants to inspect the books and records maintained by Matthew Katz with respect to fees earned by the complainants and has cashed checks intended for one or more of the above complainants for his own use and benefit.”

Katz appeared and filed his answer to the petition in which he objected to the jurisdiction of the Labor Commissioner. . . .

Admittedly, Katz was not licensed as an [agent].

The Act . . . defines “licensee” as an “[agent] which holds a valid, unrevoked, and unforfeited license. . . .”

Certain sections . . . refer to “licensee” in such context that the word can reasonably apply only to a licensed artists’ manager. Other sections, including those which are the subject of the Petition to Determine Controversy, refer to [agents] in such manner that they apply reasonably to both licensed and unlicensed [agents] . . .

Remedial statutes should be liberally construed to effect their objects and suppress the mischief at which they are directed. . . . It would be unreasonable to construe the Act as applying only to licensed artists’ managers, thus allowing an artists’ manager, by nonsubmission to the licensing provisions of the Act, to exclude himself from its restrictions and regulations enacted in the public interest. “Statutes must be given a reasonable and common sense construction in accordance with the apparent purpose and intention of the lawmakers—one that is practical rather than technical, and that will lead to wise policy rather than to mischief or absurdity.” (45 Cal. Jur.2d, Statutes, § 116, pp. 625–626.)

We conclude that [agents] (as defined by the Act), whether they be licensed or unlicensed, are bound and regulated by the Artists’ Managers Act. . . .

The Act gives the Labor Commissioner jurisdiction over those who are [agents] in fact. The petition filed with the Labor Commissioner alleges facts which if true indicate that the written contracts were but subterfuges and that Katz had agreed to, and did, act as an [agent]. Clearly the Act may not be circumvented by allowing language of the written contract to control—if Katz had in fact agreed to, and had acted as an [agent]. The form of the transaction, rather than its substance would control. . . .

The court, or as here, the Labor Commissioner, is free to search out illegality lying behind the form in which a transaction has been cast for the purpose of concealing such illegality. (*Lewis & Queen v. N.M. Ball Sons, supra*, 48 Cal.2d 141, 148.) “The court will look through provisions, valid on their face, and with the aid of parol evidence, determine that the contract is actually illegal or is part of an illegal transaction.” (1 Witkin, Summary of Cal. Law (1960) Contracts, § 157, p. 169.)

In support of his position that as a matter of law he is not an [agent] Katz cites *Raden v. Laurie*, 120 Cal. App. 2d 778 [262 P.2d 61]. That case, decided in 1953, concerned the Private Employment Agencies Act, sections 1550–1650 (also found

in part 2, div. 6 relating to “Employment Agencies”) which at that time regulated persons doing business as artists’ managers. . . .

The inapplicability of *Raden v. Laurie* to the instant controversy is obvious. There, on a motion for summary judgment, no showing, prima facie or otherwise, was made (as regards the contract sued upon or its subject matter) that Raden had agreed to act, or had acted as an [agent] (or employment agency). The District Court of Appeal found no evidence which would support a conclusion that the contract was a sham or pretext designed to conceal the true agreement or to evade the law. On the uncontroverted facts the court had jurisdiction over the controversy and the Labor Commissioner did not. In the proceedings before us a prima facie showing was made to the Labor Commissioner as to matters over which he had jurisdiction. . . .

Applying to the [Talent Agency] Act the construction given to its sister and parent statutes the following appears: The Act is broad and comprehensive. The Labor Commissioner is empowered to hear and determine disputes under it, including the validity of the [agent]-artist contract and the liability, if any, of the parties thereunder. (See *Garson v. Division of Labor Law Enforcement*, 33 Cal.2d 861, 866 [206 P.2d 368].) He may be compelled to assume this power. (*Bollatin v. Workman Service Co.*, 128 Cal.App. 2d 339, 341 [275 P.2d 599].) In the settlement of disputes the jurisdiction of the Labor Commissioner is similar to, but broader, than the power of an arbitrator under Code of Civil Procedure sections 1280–1294.2. . . . The Labor Commissioner’s awards are enforceable in the same manner as awards of private arbitrators under Code of Civil Procedure sections 1285–1288.8. . . .

Section 1700.44 of the Act is mandatory. It provides that the parties involved, artists and [agent], in any controversy arising under the Act, shall refer the matters in dispute to the commissioner. . . .

Since the instant controversy was pending before, and was properly within the jurisdiction of, the Labor Commissioner, the doctrine of “exhaustion of administrative remedies” applies. . . . This well known concept is expressed in *Abelleira v. District Court of Appeal*, 17 Cal.2d 280, 292–293 [109 P.2d 942, 132 A.L.R. 715], as “where an administrative remedy is provided by statute, relief must be sought from the administrative body and this remedy exhausted before the courts will act. . . . It is not a matter of judicial discretion, but is a fundamental rule of procedure laid down by courts of last resort, followed under the doctrine of *stare decisis*, and binding upon all courts.” . . .

We hold as to cases of controversies arising under the [Talent Agency] Act that the Labor Commissioner has original jurisdiction to hear and determine the same to the exclusion of the superior court, subject to an appeal within 10 days after determination, to the superior court where the same shall be heard de novo. (See § 1700.44.) . . . [Katz argued that the contractual provision for private arbitration prevented application to the Labor Commissioner.]

This argument overlooks the basic contention of petitioners that their agreement with Katz is wholly invalid because of his noncompliance with the Act. If the agreement is void no rights, including the claimed right to private arbitration, can be derived from it.

Loving & Evans v. Blick, *supra*, 33 Cal.2d 603, 610, states: “It seems clear that the power of the arbitrator to determine the rights of the parties is dependent upon the existence of a valid contract under which such rights might arise.” [Citations.] . . .

We conclude that petitioners are entitled, by way of certiorari, to the relief sought by them. The orders of the superior court dated January 17, 1967 are annulled. . . .

NOTES

1. In *Raden v. Laurie*, 262 P.2d. 61 (Cal. 1953), the alleged agent confined his activities to working to develop the poise and skills of a young actress and to taking her around to auditions where she might obtain work, without ever directly seeking to obtain employment for her.

2. Although the *Buchwald* court stressed substance over form, an agreement which on its face indicates unlicensed agent activity will be held void regardless of the actual activities undertaken by the representative, according to the decision of the Special Hearing Officer in *Ivy v. Howard*, Labor Commission Case No. TAC 18-94 (1994).

The *Buchwald* and *Raden* cases served to establish parameters for determining who was and who was not an “agent” in California. In the following proceeding, we see the draconian punishments which might befall one who fell on the wrong side of the line.

**Pryor v. Franklin, Case No. TAC 17 MP114 Labor Commissioner,
State of California Division of Labor Standards Enforcement (August
18, 1982)**

C. G. JOSEPH, Special Hearing Officer

[Franklin managed Richard Pryor from 1975 until 1980. In 1981 Pryor and his “loan-out” corporation filed a Petition to Determine Controversy pursuant to Labor Code § 1700.44. After the hearing the special hearing officer determined that Franklin had acted as an unlicensed talent agency and that the agreement between Franklin and Pryor was void and unenforceable as to Pryor. In addition, the hearing officer ordered Franklin to repay \$3,110,918 to Pryor.

Franklin had admittedly negotiated numerous agreements on behalf on Pryor. In addition, testimony established that Franklin had promised to procure employment for Pryor and to negotiate the agreements therefor, in all fields of entertainment. Franklin held himself out to third parties as Pryor’s “agent” and resisted attempts by other agents to render agency services to Pryor on the ground that he was already doing so. In addition, promptly after commencing his duties on Pryor’s behalf, Franklin terminated Pryor’s attorney, accountant, and other professional representatives.

Franklin was extremely active. He procured and attempted to procure employment for Pryor with Universal Studios, Paramount Pictures, 20th Century-Fox, Columbia Pictures, Tandem Productions, Steven Krantz Productions, Rastar Productions, Warner Bros. Records, NBC, and others. He also set up a U.S. live concert tour of some 75 dates. Among the films in which Pryor appeared were *Silver Streak*, *California Suite*, *The Wiz*, *Car Wash*, and *Richard Pryor Live in Concert*. At all times, Franklin served as Pryor’s “sole and exclusive negotiator.”

In his defense, Franklin asserted that he had not solicited or initiated the contacts which led to Pryor’s employment, but had merely reacted to the approaches of third parties. However, said the hearing officer, even if this were true, “. . . the furthering of an offer constitutes a significant aspect of procurement prohibited by law since the process of procurement includes the entire process

of reaching an agreement.” If it were otherwise, the act would be gutted, particularly as to “the most sought after artists whose services are in the greatest demand.”

However, the hearing officer found that Franklin had, in fact, initiated contacts which led to the formation of contracts and that he had “often initiated requests to amend and sometimes significantly change or replace an employment agreement.”]

. . . Further, respondent’s both conceiving and implementing an “overall strategy” concerning Pryor’s employment and career, represents an illustration of Respondent’s dual activities in both advising, counseling or directing Pryor in the development or advancement of his professional career, while at the same time Respondent was engaged in procuring and attempting to procure employment for Pryor in various entertainment fields. . . .

[The hearing officer then characterized as a “blatant subterfuge” Franklin’s assertion that he had served as Pryor’s attorney. Franklin was not licensed to practice law either in Georgia (he had his office in Atlanta) or in California, where Pryor resided and where Franklin performed many of his services. His contention could therefore “invite both civil and criminal proceedings; . . . any underlying contract for such services would be void and unenforceable.” However, because of a failure of evidence on this point, the hearing officer stated:]

. . . we do not need to reach the question as to whether Respondent’s conduct would have constituted a violation of the Act if he had been licensed to practice law in the State of California—a professional status which would have rendered him subject to another panoply of regulatory statutes, rules and judicial decisions. . . .

[Franklin did handle some purely business and corporate matters, and as to these business-management functions, no violation was seen. Further, Franklin did not violate the act by referring legal and corporate matters to be handled by attorneys. However, these were incidental activities, not the heart of the relationship between Pryor and Franklin. To decide otherwise, “we would have to elevate form over substance, which would emasculate the Act and permit wide ranging abuses through subterfuge and artifice.”

Franklin also used the leverage which accrued to him as Pryor’s representative to secure employment for other entertainment clients, as well as employment opportunities and consideration for himself. He was paid (and received credit) as executive producer on some of Pryor’s films, although he was not required to perform any services, evidencing “conflict of interest and blatant self-dealing.”

There was also evidence that Franklin did not account to Pryor for, or return, some \$1,850,000 of Pryor’s funds.

Therefore, according to the hearing officer:]

. . . In view of the unconscionable and continuing wrongful conduct by Respondent, including numerous acts of embezzlement, fraud and defalcation while acting in a fiduciary capacity, and in view of Respondent’s numerous violations of the Act, we hold that this [sic] an appropriate case for the exercise of the broadest remedy of restitution. . . .

[In an attempt to avoid this result, Franklin argued that Pryor was in *pari delicto*, but the hearing officer rejected this argument and held that Franklin was “solely culpable for the numerous violations of law” and that Pryor shared none of the blame or guilt. In support, the hearing officer cited a 1975 memorandum of law prepared at Franklin’s request discussing the act, which showed that the

violations were not innocent. Therefore, Franklin was ordered to repay his commission from inception, amounting to \$753,217, as well as his executive producer fees (which, the hearing officer reasoned, would have gone to Pryor if not diverted to Franklin), together with interest of \$506,000 on the three amounts (including the \$1,850,000).

However, the hearing officer determined he had no jurisdiction over Pryor's investment funds which might have been misappropriated by Franklin subsequent to being invested, since these were not "related to the artist's employment or the talent agency's unlawful procurement activities."]

Although the Pryor case might be read to indicate that a true manager cannot participate in the negotiation process, this is not always the case, as the following decisions illustrate.

Barr v. Rothberg, Case No. TAC 14-90 Labor Commissioner, State of California Division of Labor Standards Enforcement (April 30, 1992)

S. M. KAYE, Special Hearing Officer

Introduction

Barr filed a petition to determine controversy against Rothberg . . . pursuant to section 1700.44. Barr alleged that the parties had entered into an oral management agreement in April of 1988; that pursuant to the terms of that oral agreement Rothberg rendered services for Barr; that on or about November of 1989, Rothberg made false and fraudulent representations in order to induce Barr to execute a written management agreement; that as a result of the false and fraudulent representations, Barr executed the written agreement; that during the period of early 1988 through February of 1990, Rothberg acted as a talent agency, procuring, offering, promising or attempting to procure employment for Barr; that Rothberg was not licensed as a talent agency pursuant to the provisions of sections 1700 et seq. and that Rothberg attempted to use the written and oral agreement as a subterfuge to circumvent and evade the licensing requirements.

Barr prayed for the following relief:

1. An order determining that [Rothberg had] violated section 1700 et seq. of the Labor Code;
 2. A determination that the oral and written agreements were void and unenforceable and that petitioners had no liability thereon and respondents had no rights or privileges thereunder;
 3. An accounting from [Rothberg] with regard to that received by [Rothberg] in connection with services rendered by petitioner; . . .
- [and other relief, including]
5. An order requiring [Rothberg to refund commissions] in an amount not less than \$265,000 . . .

Respondents filed an answer to the petition essentially denying the allegations, while raising affirmative defenses and subsequently filed an amended answer seeking affirmative relief.

Discussion

... To conclude that Rothberg acted as a talent agent during the relevant period requires a finding from all the evidence presented that Rothberg . . . engaged in the procuring, offering, promising or attempting to procure employment or engagements for Barr. . . .

[I]t is important to this discussion to understand what the parties intended [their] relationship to be, and what it was. We note that Barr was represented by a licensed talent agency [when the Barr-Rothberg relationship began,] the Triad Agency.

It was clear from their first meeting, that Rothberg liked Barr, “was crazy about her”, saw her as a movie star and wanted to see Barr achieve her desire to be a “female Woody Allen”. Their testimony revealed that much of their discussions revolved around Barr’s career goals, as well as Barr’s work and personal problems.

Shortly after her relationship with Rothberg began, Barr terminated the Triad Agency as her talent agent. Barr subsequently, but prior to the period at issue here, hired the William Morris Agency as her talent agent. The William Morris Agency continued to represent Barr through the period at issue here.

The William Morris Agency received a commission on Barr’s work, with one exception, that of the “Roseanne” television show. [It was the Triad Agency that “procured” the “Roseanne” television show for Barr. Barr was involved in the show at the time she hired the William Morris Agency and the William Morris Agency elected not to receive commissions on the “Roseanne” television show—Eds.] We come now to the crux of this entire matter, the “Roseanne” show, the renegotiation of the contract on that show and Rothberg’s role in the renegotiation of that contract.

A number of meetings were held regarding the renegotiation of the “Roseanne” television show. Those who attended the meetings included representatives of the William Morris Agency, the Carsey-Werner Company as the producer of the series, Arlyne Rothberg and Barry Hirsch who is an attorney with the firm of Armstrong & Hirsch, specializing in entertainment law, particularly motion pictures and television.

Although representatives of the William Morris Agency were present at the meetings, Mr. Hirsch acted as the lead negotiator at these meetings. That someone other than the talent agency would take the lead in negotiations, is not unusual. It is an accepted practice in the industry when considering the various relationships, that of the client, the lawyer and the production company.

That Rothberg participated at the meetings is clear. That her efforts on Barr’s behalf were goal oriented is also clear. Rothberg concentrated on the “creative” issues, the writers, the producers, the “created by” credit and Barr being afforded her due as a result of the success of the show.

What emerges from all of this is the conclusion that renegotiation meetings were a joint effort on the part of Rothberg, Hirsch and the William Morris Agency, collectively working on Barr’s behalf, not for the purpose of “procuring” employment, but rather, to aid Barr in the achievement of the goals she desired.

Therefore, it is this hearing officer’s conclusion that the relationship . . . was one of artist and personal manager and that was in fact what Rothberg and Barr intended that relationship to be. Rothberg acted as a personal manager and not as a talent agent. . . .

In light of the resolution of this issue, any further discussion relating to the parties' relationship is unnecessary. All other issues are moot. Accordingly, the petition is dismissed. The relief requested by the parties is denied.

NOTE

Nor is it essential that the licensed members of the artist's "team" be present at all times in order for a manager to participate safely in the process of securing employment and negotiating the terms thereof. In *Snipes v. Dolores Robinson Entertainment*, Labor Commission Case No. TAC 36-96 (1998), a manager whose involvement was pursuant to a written request from a licensed agent (one of the statutory exceptions) was allowed to conduct direct negotiations.

Shortly before the decision of the Labor Commissioner in *Barr v. Rothberg, supra*, the Commissioner decided *Arsenio Hall v. X Management, Inc.*, TAC No. 19-90 (Jack Allen, Special Hearing Officer) (April 24, 1992), invalidating the management agreement between Hall and X Management *ab initio* and ordering X Management to repay commissions of more than \$2 million. While that proceeding was pending, Robert Wachs, one of the principals of X Management, brought an action challenging the constitutionality of the licensing provisions of the Talent Agency Act. The Superior Court granted summary judgment to the Labor Commissioner, which was affirmed in *Wachs v. Curry*, 13 Cal.App. 4th 616, 16 Cal. Rptr. 2d 496 (Ct.App. 2d Dist. 1993), which appeared to prescribe a "center of gravity" test to be applied to the representative's entire business. If the representative's overall business was not within the ambit of the Act, the representative would not be considered an unlicensed agent even though performing activities covered by the Act in a specific instance. However, a different panel of the same court subsequently expounded a "bright line" theory—*any* unlicensed activity was covered by the Act—in *Waisbren v. Peppercorn Productions, Inc.*, 48 Cal.Rptr.2d 437 (Ct. App. 2d Dist. 1995). The "bright line" rule was underscored in the decision which follows.

Park v. Deftones, 71 Cal. App. 4th 1465, 84 Cal. Rptr. 2d 616 (Ct. App. 2d Dist.), *reh. denied*, 1999 Cal. LEXIS 5248 (1999)

NOTT, ACTING P. J.

Dave Park appeals from the summary judgment entered against him in his action for breach of contract and intentional interference with contractual relations. His action arises from the termination of his personal manager contract by the Deftones, a music act . . . without paying him commissions which he asserts are due him. In addition, Park alleges that after he secured a recording contract for the Deftones with Maverick Records (Maverick), the record company and one of its agents, Guy Oseary, purposefully interfered with Park's contractual relationship with the Deftones. The trial court granted summary judgment on the ground that the management contract between the Deftones and Park was void, Park having violated the Talent Agencies Act (the Act) by securing performance engagements for the Deftones without being licensed as a talent agency. We affirm on that ground.

Procedural and Factual Background

Park filed this action in October 1996. . . . In February 1997, the Deftones filed a petition before the Labor Commissioner, seeking to void the management agreements. Park unsuccessfully sought dismissal of the petition as untimely filed. The Labor Commissioner determined that Park had violated the Act by obtaining performance engagements for the Deftones on 84 occasions without a license. He issued an order stating that the personal management agreements entered into in 1992, 1993, and 1994 were “null, void and unenforceable.” Park demanded a trial de novo in the administrative proceeding. [Defendants] filed a motion for summary judgment on the grounds that the undisputed facts showed that . . . between September 1991 and September 1994, Park procured numerous performances for the Deftones, and . . . was not a licensed talent agency during that period . . .

Park opposed the motions [although he] admitted that he had obtained more than 80 engagements for the Deftones. He asserted that the Deftones’ petition before the Labor Commission was untimely filed and that his services did not require a talent agency license because they were rendered without a commission and were undertaken in order to obtain a recording agreement. The trial court entered summary judgment in favor of all defendants.

Discussion

I. Timeliness

Park contends that the Deftones’ petition before the Labor Commissioner and the defense based upon the Act are barred by the one-year statute of limitations [prescribed in § 1700.44, subd. (c) of the Talent Agency Act, because] the last time he booked a concert for the Deftones was in August 1994 [and] that the Deftones’ petition, filed in February 1997, was therefore not timely. Park concludes that the Deftones may not rely upon the Act as a defense because Park’s own action was filed more than one year after he last booked a concert for the Deftones.

The Labor Commissioner, who is statutorily charged with enforcing the Act (§ 1700.44, subd. (a)), found that the Deftones’ petition was timely because it was brought within one year of Park’s filing an action to collect commissions under the challenged [management agreement, for procuring the recording agreement.] The Commissioner stated that the attempt to collect commissions allegedly due under the agreements was itself a violation of the Act. (*Moreno v. Park* (Jan. 20, 1998, Lab.Comr.) No. 9–97, p. 4.)

In construing a statute, the court gives considerable weight to the interpretation placed on the statute by the administrative agency charged with enforcing it. (*Robinson v. Fair Employment & Housing Com.* (1992) 2 Cal.4th 226, 234, 5 Cal.Rptr.2d 782, 825 P.2d 767.) The Labor Commissioner’s interpretation avoids the encouragement of preemptive proceedings before it. It also assures that the party who has engaged in illegal activity may not avoid its consequences through the timing of his own collection action.

We conclude that the Labor Commissioner’s interpretation is reasonable, and that the Deftones’ petition was timely filed.

II. Incidental procurement of employment

The Act provides that “No person shall engage in or carry on the occupation of a talent agency without first procuring a license therefor from the Labor Com-

missioner.” (§ 1700.5.) A talent agency is “a person or corporation who engages in the occupation of procuring, offering, promising, or attempting to procure employment or engagements for an artist or artists, except that the activities of procuring, offering, or promising to procure recording contracts for an artist or artists shall not of itself subject a person or corporation to regulation and licensing under this chapter. . . .” (§ 1700.4, subd. (a).)

Unlike talent agents, personal managers are not covered by the Act. Personal managers primarily advise, counsel, direct, and coordinate the development of the artist’s career. They advise in both business and personal matters, frequently lend money to young artists, and serve as spokespersons for the artists. (See *Waisbren v. Peppercorn Productions, Inc.* (1995) 41 Cal.App. 4th 246, 252–253, 48 Cal.Rptr.2d 437.)

Park argues that as a personal manager his goal in procuring engagements for the Deftones was to obtain a recording agreement. He contends that his actions were therefore exempt from regulation. That position was rejected in *Waisbren, supra*, 41 Cal.App. 4th at p. 259, 48 Cal.Rptr.2d 437. In *Waisbren*, a promoter brought an action for breach of contract against a company engaged in designing and creating puppets. The defendant moved for summary judgment on the ground the parties’ agreement for the plaintiff’s services was void because he had performed the duties of a talent agent without obtaining a license. The plaintiff asserted that a license was unnecessary because his procurement activities were minimal and incidental. He had also assisted in project development, managed certain business affairs, supervised client relations and publicity, performed casting duties, coordinated production, and handled office functions. In return, he was to receive 15 percent of the company’s profits. *Waisbren* holds that even incidental activity in procuring employment for an artist is subject to regulation under the Act.

The reasoning of *Waisbren* is convincing. It relies upon the remedial purpose of the Act and the statutory goal of protecting artists from long recognized abuses. The decision is also based upon the Labor Commissioner’s long held position that a license is required for incidental procurement activities. The court in *Waisbren* found the Labor Commissioner’s position to be supported by legislative history and, in particular, by the recommendations contained in the Report of the California Entertainment Commission, which were adopted by the Legislature in amending the Act in 1986. *Wachs v. Curry* (1993) 13 Cal.App. 4th 616, 16 Cal.Rptr.2d 496, relied upon by Park, does not further his cause. In *Wachs*, the personal manager plaintiffs brought a declaratory relief action challenging the constitutionality of the Act on its face. They took the position that the Act’s exemption for procurement activities involving recording contracts violated the equal protection clause and that the Act’s use of the term “procure” was so vague as to violate due process. *Wachs* rejected both of those positions. It also interpreted the Act, which applies to persons engaged in the occupation of procuring employment for artists, as applying only where a person’s procurement activities constitute a significant part of his business. (*Id.* at pp. 627–628, 16 Cal.Rptr.2d 496.) The court did not define “significant part.” The court acknowledged that “. . . the only question before us is whether the word ‘procure’ in the context of the Act is so lacking in objective content that it provides no standard at all by which to measure an agent’s conduct” (*id.* at p. 628, 16 Cal.Rptr.2d 496, italics omitted). We agree with *Waisbren* that the interpretation stated in *Wachs* is dictum and that even incidental procurement is regulated.

III. *Absence of a commission*

Park also contends that his procuring employment for the Deftones is not regulated by the Act because he was not compensated for that work. We disagree. Park's 1993 and 1994 agreements with the Deftones expressly provided that Park was to receive a 20 percent commission on all income earned from employment that Park secured. Although Park stated in declaration testimony that he received no commission for procuring engagements for the Deftones, the contracts appear to provide for compensation. [Note in original: The agreements acknowledge that Park is not a licensed talent agent and is under no obligation to procure employment for the Deftones.] In addition, Park would receive compensation for his services ultimately from commissions for obtaining a recording contract for the Deftones. Thus, it is not clear that Park should be treated as one who was not compensated for his services.

Park's position, moreover, is not supported by the language of the Act. The Act regulates those who engage in the occupation of procuring engagements for artists. (§ 1700.4 subd. (a).) The Act does not expressly include or exempt procurement where no compensation is made. *Waisbren* states at footnote 6: "By using [the term 'occupation'], the Legislature intended to cover those who are compensated for their procurement efforts." (41 Cal.App. 4th at p. 254, 48 Cal.Rptr.2d 437.) The issue of compensation, however, was not before the court in *Waisbren*. The language in footnote 6 is dictum which we conclude is not supported by the purpose and legislative history of the Act. One may engage in an occupation which includes procuring engagements without receiving direct compensation for that activity.

As explained in *Waisbren*, the purpose of the Act is remedial, and its aim goes beyond regulating the amount of fees which can be charged for booking acts. For example, an agent must have his form of contract approved by the Labor Commissioner, maintain his client's funds in a trust fund account, record and retain certain information about his client, and refrain from giving false information to an artist concerning potential employment. (See §§ 1700.23, 1700.25, 1700.26, 1700.32, and 1700.41.) Because the Act is remedial, it should be liberally construed to promote its general object. (See *Buchwald v. Superior Court* (1967) 254 Cal.App. 2d 347, 354, 62 Cal.Rptr. 364.) The abuses at which these requirements are aimed apply equally where the personal manager procures work for the artist without a commission, but rather for the deferred benefits from obtaining a recording contract.

In 1982, the Legislature created the California Entertainment Commission (the Commission) to study the laws and practices of this and other states relating to the licensing of agents and representatives of artists in the entertainment industry in order to recommend to the Legislature a model bill regarding licensing. (See *Waisbren, supra*, 41 Cal. App. 4th at p. 256, 48 Cal.Rptr.2d 437.) In 1985, the Commission submitted its report to the Governor and the Legislature (the Report). The Legislature followed the Commission's recommendations in enacting the 1986 amendments to the Act. (See *Waisbren, supra*, 41 Cal.App. 4th at p. 258, 48 Cal.Rptr.2d 437.) The Report [as to which the court took judicial notice, under Evidence Code § 452 subd. (c)] states that the Commission reviewed and rejected a proposal which would have exempted from the Act anyone who does not charge a fee or commission for procuring employment for an artist. The Commission concluded: "It is the majority view of the Commission that personal managers

or anyone not licensed as a talent agent should not, under any condition or circumstances, be allowed to procure employment for an artist without being licensed as a talent agent, except in accordance with the present provisions of the Act.” (Report, p. 6.)

The Legislature accepted the Report and codified the Commission’s recommendations, approving the Commission’s view that no exemption should be created for those who do not charge a fee for procuring employment for an artist. We conclude that the Act requires a license to engage in procurement activities even if no commission is received for the service.

ZEBROWSKI, J., and MALLANO, J. [Judge of the Los Angeles Superior Court, assigned by the Chief Justice pursuant to article VI, section 6 of the California Constitution], concur.

NOTE

Although, as the *Park* decision indicates, a considerable degree of elasticity appears to be present in the one-year statute of limitations under Section 1700.44 (c), it is not infinite, as illustrated by the decision in *Styne v. Stevens*, 78 Cal. App. 4th 17, 92 Cal.Rptr.2d 655 (Ct. App. 2d Dist. 2000), in which singer/actress Connie Stevens waited more than sixteen months after being sued by her manager before raising the defense of unlicensed agency. *Styne* had sued Ms. Stevens for commissions on income from sales of her “Forever Spring” line of beauty products on the Home Shopping Network, products which were promoted via Ms. Stevens’ personal appearances on HSN.

But the situation is not “either/or.” It is possible for a personal manager to sign an artist to a company owned by the manager and/or to go into business with a client under certain circumstances, but the outcome will depend on the facts of the case. On June 22, 1959, the Labor Commissioner issued an opinion letter stating that agreements for “packaging” (i.e., the practice of assembling key elements of film and television packages such as producer, director, writer and leading actors) did not require approval of the form utilized, because such activity was of a “creative” nature and the form “contains nothing with respect to the employment of an artist for the rendering of his personal services or for the advising and counseling of artists in their professional careers.” On October 30, 1998, the Labor Commissioner reaffirmed that he lacked jurisdiction over such agreements, because packaging is akin to a “pitch” that must be sold prior to any procurement of employment.” Labor Commission jurisdiction would attach only thereafter. However, as the following decision indicates, it is possible to go much further than packaging under appropriate circumstances.

Chinn v. Tobin, Labor Commission Case No. TAC 17–96

MILES E. LOCKER, Special Hearing Officer

Background

[Petitioners Chinn and Wampole signed an “Artist Agreement” and a “Personal Management Agreement” with Respondent Tobin,] the owner of a business that engaged in the recording and publishing of music . . .

Under the “Artist Agreement,” petitioners agreed to render their “exclusive recording services” to [Tobin, who] would be the sole owner of all master recordings [with] exclusive rights to manufacture records from those master recordings [or license others to do so], and to permit the public performance of these recordings; [and] would hold the publishing rights to any compositions recorded by [Chinn and Wampole], and [Tobin] could subsequently assign all or

part of these rights to a publishing company. In return, Respondent agreed to commercially exploit and finance the production of petitioner's recordings, and to pay various recording costs, advances to petitioners, and royalties. The Artist Agreement also provided that Respondent could produce, at his discretion, music videos [which he would then own], with petitioners entitled to royalties based on any profits that may result from the commercial exploitation of such videos.

Pursuant to the Artist Agreement, Tobin arranged for Petitioners' use of a professional recording studio and sound engineer, and secured and paid for the services of session musicians to record with Petitioners. Tobin also undertook efforts to promote Petitioners' recordings with record industry executives and with radio programmers through meetings and the distribution of promotional CD recordings. Respondent paid over \$43,000 for recording studio time [and related services, equipment and materials.]

Under the "Personal Management Agreement," [the term of which was coterminous with that of the Artist Agreement] petitioners agreed that Respondent would serve [for a commission of 20% of their gross income from sources *other than* the Artist Agreement] as their "exclusive personal manager" and "adviser" [sic] . . . in connection with all matters relating to their careers, and, with their approval [sic] "[to] prepare, negotiate [and] consummate . . . any and all agreements, documents, and contracts for Artist's services [but that] Artist understands that Manager is not an employment agent, theatrical agent, or artist's manager, and that Manager has not offered, attempted or promised to obtain employment or engagements for Artist, and that Manager is not permitted, obligated, authorized or expected to do so . . ."

[When Tobin sued Chinn and Wampole for breach of contract, they petitioned the Labor Commissioner under Labor Code §1700.44, claiming that Tobin was an unlicensed agent.]

Legal Analysis

. . . In essence, petitioners' case boils down to the allegation that respondent "procured employment" for Big Soul, within the meaning of Labor Code section 1700.4(a), by obtaining their songwriting services for his own music publishing business [and that this constituted unlicensed agency activity.] . . . No evidence of any sort was presented to indicate that Respondent procured, offered, attempted or promised to secure employment for Petitioners, with respect to Petitioners' song writing services, for any person or entity other than the Respondent himself and Respondent's music publishing business. We do not believe that this would establish a violation . . . [Note: Although Labor Code section 1700.4(a) exempts "procuring, offering, or promising to procure *recording contracts* for an artist" from the scope of activities for which a talent agency license is required, this exemption does not expressly extend to the procurement of *music publishing* contracts. As with all remedial legislation, exemptions must be strictly construed—Eds]. Respondent argues, however, that the rights granted to him under the music publishing provision of the Artist Agreement are expressly defined to include only those musical compositions that are "recorded by [Petitioners] under this [Artist] Agreement," that these music publishing rights fall within the statutory exemption for recording contracts. This argument ignores the fact that music publishing and recording are two separate endeavors . . . [and] music publishing and songwriting does not fall within the recording contract exemption, regardless of whether the right to publish an artist's music is limited

only to compositions that are contained on that artist's record . . . [A] person or entity who employs an artist does not "procure employment" for that artist, within the meaning of Labor Code section 1700.04(a), by directly engaging the services of that Artist . . . [Unlike] the role an agent plays when acting as an intermediary between the artist whom the agent represents and the third-party employer who seeks to engage the artist's services.

Petitioners' novel argument would mean that every television or film production company that directly hires an actor, and that every concert producer that directly engages the services of a musical group, without undertaking any communications or negotiations with the actor's or musical group's talent agent, would itself need to be licensed. . . . To suggest that any person who engages the services of an artist for himself is [acting as an agent] is to radically expand the reach of the Talent Agencies Act beyond recognition. . . . We can find nothing in the legislative history of the Talent Agencies Act that would even remotely indicate any legislative intent to require the licensing of employers who directly offer employment to artists, and to construe the Act in such a manner would lead to absurd results.

[The test, the SO stated, citing *Hums v. Margie Ventures, Inc.*, 174 Cal.App. 3d 486 (1985) was] the substantive reality behind the contractual language. [In the *Margie* case, the respondent] merely functioned as a loan-out company for providing Hums' services to third party producers. [Here, petitioners] failed to present any evidence, or offer of proof, that respondent ever procured or promised or offered or attempted to procure employment for petitioners with any third party. [Note: Petitioners did present evidence that Tobin "made several attempts to obtain [major] label distribution for Big Soul and had contacts with at least one European 'subpublisher.' These activities were consistent with Tobin's rights under the Artist Agreement, with respect to his ownership of Big Soul's recordings and compositions. Tobin was not negotiating with these record companies and subpublishers to employ Big Soul, but, rather, to secure distribution. In this respect, Tobin's role was analogous to an independent television production company that hires actors and other necessary employees for the production, that bears the expenses incurred in completing the production, that owns the movie or television series that it produced, and that has the right to enter into distribution agreements with networks for this movie or series. The Talent Agencies Act does not require that an independent television producer be licensed to engage in such activities. There is no reason to treat an independent music producer any differently. And the evidence presented here leaves no doubt that Tobin is a bona fide music producer, in contrast to the fictitious "theatrical production" company that was created in *Margie* for the purpose of "loaning out" the artist's services to third party producers as a means of evading the Act's licensing requirements—Eds.]

[Nor was the arrangement disabled by the fact that Tobin had the right to negotiate and consummate agreements under the Personal Management Agreement, because the subject paragraph] grants this authority to Respondent "in accordance with" another paragraph of the Agreement that states that Tobin "is not permitted, obligated, authorized or expected" to obtain employment or engagements for Big Soul, and that Tobin shall consult with Big Soul in the selection or engagement of any talent agent. . . . It was the parties' intent that these contract provisions be construed in a manner that complies with the Talent Agencies Act.

It is a basic principle of contract law that a contract must be given such an interpretation as will make it lawful, if it can be done without violating the intentions of the parties. (Civil Code section 1643.) [Because of the exemption provided under Labor Code section 1700.44(d), Tobin could work with, and at the request of, a licensed agent, and the Barr decision, above, we] therefore construe paragraphs 3(c) and 7 of the Personal Management Agreement as allowing Tobin to engage in only those procurement activities, and only under those circumstances that are permitted by Labor Code section 1700.44(d).

NOTE

SO Locker's observation concerning music publishing agreements should be of considerable interest to attorneys, who regularly "shop" and negotiate such agreements: "Although Labor Code section 1700.44(a) exempts 'procuring, offering or promising to procure *recording contracts* for an artist' from the scope of activities for which a talent agency license is required, this exemption does not expressly extend to the procurement of *music publishing* contract . . . As with all remedial legislation, exemptions must be strictly construed. . . . Music publishing and recording are two separate endeavors. . . . Music publishing and songwriting does not fall within the recording contract exemption." (emphasis in original). Although the decision in *Pryor v. Franklin*, above, suggests that the existence of an elaborate legislative licensing procedure for attorneys would immunize them from the necessity to obtain licenses under the Talent Agencies Act, the Labor Commissioner takes the position that attorneys are subject to the Act when negotiating music publishing agreements. See Donald E. Biederman, "Agents v. Managers Revisited," 1 *Vand. J. of Ent. L. and Prac.* No. 1, p. 5 (Spring 1999).

1.4 BUSINESS MANAGERS

The business manager can act in the simple role of paymaster, taking care of the client's bills, tax returns, and similar matters. Some business managers perform the additional role of investment adviser, handling tax shelters, pension plans, and other matters not directly related to the artist's day-to-day financial functions. Inevitably, the business manager is privy to the most intimate details of the client's economic life. As the following case indicates, a very high level of fiduciary duty attaches to the role of business manager.

ABKCO Music, Inc. v. Harrisongs Music, Ltd., 722 F.2d 990 (2d Cir. 1983)

PIERCE, J.

[Bright Tunes Music Corporation sued George Harrison, ("GH") and related entities ("Harrison Interests"), claiming that GH's song "My Sweet Lord" ("MSL") infringed Bright Tunes' "He's So Fine" ("HSF").]

When this action was commenced, the business affairs of The Beatles, including Harrison Interests, were handled by ABKCO Music, Inc. (ABKCO) and Allen B. Klein, its President and "moving spirit." *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 508 F. Supp. 798, 799 (S.D.N.Y. 1981). ABKCO was Harrison's business manager during the initial stages of the copyright liability action herein, at which time the litigation was handled for Harrison by ABKCO's General Counsel.

The following events preceded the instant appeal. Shortly after this action was commenced in February 1971, Klein (representing Harrisongs Music, Inc. and

George Harrison) met with Seymour Barash (President and major stockholder of Bright Tunes) to discuss possible settlement of this lawsuit. Although Klein, at trial, denied having specific knowledge of the details of this discussion, he testified that he had suggested to Barash, around February of 1971, a purchase of the entire stock of Bright Tunes as a way to dispose of this lawsuit. Thus, in 1971, Klein was acting on behalf of Harrison Interests in an effort to settle this copyright infringement claim brought by Bright Tunes, although no settlement resulted.

Subsequent to the Klein-Barash meeting, Bright Tunes went into “judicial dissolution proceedings.” This infringement action was placed on the district court’s suspense calendar on March 3, 1972, and was resumed by Bright Tunes (in receivership) in early 1973. Also in early 1973 (March 31), ABKCO’s management contract with The Beatles expired. Bitter and protracted litigation ensued between The Beatles and ABKCO over the winding down of management affairs—a dispute that ended in 1977 with The Beatles paying ABKCO \$4.2 million in settlement.

There is some disagreement as to whether further settlement negotiations took place between Harrison Interests and Bright Tunes between 1973 and mid-1975. It appears undisputed, however, that Harrison Interests’ attorney at least initiated settlement talks in the late summer of 1975; that in the period October 1975 through February 1976, settlement discussions took place between Bright Tunes’ counsel and counsel for Harrison Interests regarding settlement of this infringement action (an offer by Harrison Interests based on United States royalties); and that those discussions were in the 50%/50% or 60%/40% range. These discussions culminated in a \$148,000 offer by Harrison Interests in January of 1976 (representing 40% of the United States royalties).

At about the same time (1975), apparently unknown to George Harrison, Klein had been negotiating with Bright Tunes to purchase all of Bright Tunes’ stock. That such negotiations were taking place was confirmed as early as October 30, 1975, in a letter from Seymour Barash (Bright Tunes’ former President) to Howard Sheldon (Bright Tunes’ Receiver), in which Barash reported that there had been an offer from Klein for a substantial sum of money. The same letter observed that “[Klein] would not be interested in purchasing all of the stock of Bright Tunes . . . if there was any doubt as to the outcome of this litigation.”

In late November 1975, Klein (on behalf of ABKCO) offered to pay Bright Tunes \$100,000 for a call on all Bright Tunes’ stock, exercisable for an additional \$160,000 upon a judicial determination as to copyright infringement. In connection with this offer, Klein furnished to Bright Tunes three schedules summarizing the following financial information concerning “My Sweet Lord”: (1) domestic royalty income of Harrison’s Music, Inc. on MSL; (2) an updated version of that first schedule; and (3) Klein’s own estimated value of the copyright, including an estimate of foreign royalties (performance and mechanical) and his assessment of the total worldwide future earnings.

Barash considered the Klein offer only a starting point. He thought that a value of \$600,000 was more accurate and recommended a \$200,000 call, based on a \$600,000 gross sales price. Also in December 1975, Barash noted, in a letter to counsel for the Peter Maurice Co., that Harrison Interests’ counsel had never furnished a certified statement of worldwide royalties of MSL, but that from conversations between Stephen Tenenbaum (accountant for several Bright Tunes stockholders) and Klein, Bright Tunes had been given that information by Klein.

Shortly thereafter, on January 19, 1976, Barash informed Howard Sheldon (Bright Tunes' Receiver) of the Klein offer and of the Bright Tunes stockholders' unanimous decision to reject it. Barash noted that "[s]ince Mr. Klein is in a position to know the true earnings of 'My Sweet Lord,' his offer should give all of us an indication of the true value of this copyright and litigation." Sheldon responded in a letter dated January 21, 1976, noting, *inter alia*, that Harrison's attorneys were informed that no settlement would be considered by Bright Tunes until total sales of MSL were determined after appropriate figures were checked.

On January 30, 1976, the eve of the liability trial, a meeting was held by Bright Tunes' attorney for all of Bright Tunes' stockholders (or their counsel) and representatives of Ronald Mack. The purpose of the meeting was to present Bright Tunes with an offer by Harrison Interests of \$148,000, representing 40% of the writers' and publishers' royalties earned in the United States (but without relinquishment by Harrison of the MSL copyright). At the time, Bright Tunes' attorney regarded the offer as "a good one." 508 F. Supp. at 802. The Harrison offer was not accepted, however. Bright Tunes raised its demand from 50% of the United States royalties, to 75% worldwide, plus surrender of the MSL copyright. The parties were unable to reach agreement and the matter proceeded to trial.

A three-day bench trial on liability was held before Judge Owen on February 23–25, 1976. On August 31, 1976 (amended September 1, 1976), the district judge rendered a decision for the plaintiff as to liability, based on his finding that "My Sweet Lord" was substantially similar to "He's So Fine" and that Harrison had had access to the latter. *Bright Tunes Music Corp. v. Harrisongs Music, Ltd.*, 420 F. Supp. 177 (S.D.N.Y. 1976). The issue of damages and other relief was scheduled for trial at a later date.

Following the liability trial, Klein, still acting for ABKCO, continued to discuss with Bright Tunes the purchase of the rights to HSF. During 1977, no serious settlement discussions were held between Bright Tunes and Harrison Interests. Indeed, the record indicates that throughout 1977 Bright Tunes did not authorize its attorneys to give Harrison a specific settlement figure. By November 30, 1977, Bright Tunes' counsel noted that Klein had made an offer on behalf of ABKCO that "far exceeds any proposal that has been made by the defendants."

On February 8, 1978, another settlement meeting took place, but no agreement was reached at that meeting. Although it appears that everyone present felt that the case should be settled, it also appears that there were no further settlement discussions between Harrison Interests and Bright Tunes subsequent to that date. The Bright Tunes negotiations with ABKCO, however, culminated on April 13, 1978, in a purchase by ABKCO of the HSF copyright, the United States infringement claim herein, and the worldwide rights to HSF, for \$587,000, an amount more than twice the original Klein (ABKCO) offer. This purchase was made known to George Harrison by Klein himself in April or May of 1978, Harrison "was a bit amazed to find out" about the purchase. . . .

On July 17, 1978, ABKCO adopted Bright Tunes' complaint and was substituted as the sole party plaintiff in this action. In May 1979, Harrison Interests obtained leave to assert affirmative defenses and counterclaims against Klein and ABKCO for alleged breaches of fiduciary duty relating to the negotiation for and purchase of the Bright Tunes properties. . . .

The damages decision was filed on February 19, 1981. *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 508 F. Supp. 798 (S.D.N.Y. 1981). Having determined that the damages amounted to \$1,599,987, the district judge held that ABKCO's

conduct over the 1975–78 period limited its recovery, substantially because of the manner in which ABKCO had become a plaintiff in this case. Particularly “troublesome” to the court was “Klein’s covert intrusion into the settlement negotiation picture in late 1975 and early 1976 immediately preceding the trial on the merits.” *Id.* at 802. He found, *inter alia*, that Klein’s status as Harrison’s former business manager gave special credence to ABKCO’s offers to Bright Tunes and made Bright Tunes less willing to settle with Harrison Interests either before or after the liability trial. Moreover, the court found that in the course of negotiating with Bright Tunes in 1975–76, Klein “covertly furnished” Bright Tunes with certain financial information about MSL which he obtained while in Harrison’s employ as business manager. The foregoing conduct, in the court’s view, amounted to a breach of ABKCO’s fiduciary duty to Harrison. The court held that although it was not clear that “but for” ABKCO’s conduct Harrison Interests and Bright Tunes would have settled, he found that good faith negotiations had been in progress between the parties and Klein’s intrusion made their success less likely, since ABKCO’s offer in January 1976 was viewed by Bright Tunes as an “insider’s disclosure of the value of the case.” *Id.* at 803. Consequently, the district judge directed that ABKCO hold the “fruits of its acquisition” from Bright Tunes in trust for Harrison Interests, to be transferred to Harrison Interests by ABKCO upon payment by Harrison Interests of \$587,000 plus interest from the date of acquisition. . . .

ABKCO . . . argues that ABKCO did not breach its fiduciary duty to Harrison because (a) no confidential information was improperly passed from ABKCO to Bright Tunes during the negotiations to purchase HSF, and (b) there was no causal relationship between ABKCO’s actions and Harrison Interests’ failure to obtain settlement. . . . [W]e reject appellant’s arguments and affirm the decision of the district judge. . . .

There is no doubt but that the relationship between Harrison and ABKCO prior to the termination of the management agreement in 1973 was that of principal and agent, and that the relationship was fiduciary in nature. See *Meese v. Miller*, 79 A.D.2d 237, 241, 436 N.Y.S.2d 496, 499 (4th Dep’t 1981). The rule applicable to our present inquiry is that an agent has a duty “not to use confidential knowledge acquired in his employment in competition with his principal.” *Byrne v. Barrett*, 268 N.Y. 199, 206, 197 N.E. 217, 218 (1935). This duty “exists as well after the employment is terminated as during its continuance.” *Id.*; see also *Restatement (Second) of Agency* § 396 (1958). On the other hand, use of information based on general business knowledge or gleaned from general business experience is not covered by the rule, and the former agent is permitted to compete with his former principal in reliance on such general publicly available information. *Byrne v. Barrett*, 268 N.Y. at 206, 197 N.E. at 218; *Restatement (Second) of Agency* § 395 comment b (1958). The principal issue before us in the instant case, then, is whether the district court committed clear error in concluding that Klein (hence, ABKCO) improperly used confidential information, gained as Harrison’s former agent, in negotiating for the purchase of Bright Tunes’ stock (including HSF) in 1975–76.

One aspect of this inquiry concerns the nature of three documents—schedules of MSL earnings—which Klein furnished to Bright Tunes in connection with the 1975–76 negotiations. Although the district judge did not make a specific finding as to whether each of these schedules was confidential, he determined that Bright Tunes at that time was not entitled to the information. 508 F. Supp.

at 803. It appears that the first of the three schedules may have been previously turned over to Bright Tunes by Harrison. The two additional schedules which Klein gave to Bright Tunes (the detailed updating of royalty information and Klein's personal estimate of the value of MSL and future earnings) appear not to have been made available to Bright Tunes by Harrison. Moreover, it appears that at least some of the past royalty information was confidential. The evidence presented herein is not at all convincing that the information imparted to Bright Tunes by Klein was publicly available. *Cf. Franke v. Wiltschek*, 209 F.2d 493, 495 (2d Cir. 1953) (former fiduciary precluded from using confidential information in competition with former principal even if the information is readily available from third parties or by other means). Furthermore, the district judge was in a better position to assess the credibility aspects of evidence bearing on this question than we are.

Another aspect of the breach of duty issue concerns the timing and nature of Klein's entry into the negotiation picture and the manner in which he became a plaintiff in this action. In our view, the record supports the position that Bright Tunes very likely gave special credence to Klein's position as an offeror because of his status as Harrison's former business manager and prior coordinator of the defense of this lawsuit. *See, e.g.*, letter from Barash to Sheldon, dated January 19, 1976 ("Since Mr. Klein is in a position to know the true earnings of My Sweet Lord, his offer should give all of us an indication of the true value of this copyright and litigation."). To a significant extent, that favorable bargaining position necessarily was achieved because Klein, as business manager, had intimate knowledge of the financial affairs of his client. Klein himself acknowledged at trial that his offers to Bright Tunes were based, at least in part, on knowledge he had acquired as Harrison's business manager.

Under the circumstances of this case, where there was sufficient evidence to support the district judge's finding that confidential information passed hands, or, at least, was utilized in a manner inconsistent with the duty of a former fiduciary at a time when this litigation was still pending, we conclude that the district judge did not err in holding that ABKCO had breached its duty to Harrison. . . .

In this case, Klein had commenced a purchase transaction with Bright Tunes in 1971 on behalf of Harrison, which he pursued on his own account after the termination of his fiduciary relationship with Harrison. While the initial attempt to purchase Bright Tunes' catalogue was several years removed from the eventual purchase on ABKCO's own account, we are not of the view that such a fact rendered ABKCO unfettered in the later negotiations. Indeed, Klein pursued the later discussions armed with the intimate knowledge not only of Harrison's business affairs, but of the value of this lawsuit—and at a time when this action was still pending. Taking all of these circumstances together, we agree that appellant's conduct during the period 1975–78 did not meet the standard required of him as a former fiduciary.

In so concluding, we do not purport to establish a general "appearance of impropriety" rule with respect to the artist/manager relationship. That strict standard—reserved principally for the legal profession—would probably not suit the realities of the business world. The facts of this case otherwise permit the conclusion reached herein. Indeed, as Judge Owen noted in his Memorandum and Order of May 7, 1979 (permitting Harrison Interests to assert counterclaims), "The fact situation presented is novel in the extreme. Restated in simplest form,

it amounts to the purchase by a business manager of a known claim against his former client where, the right to the claim having been established, all that remains to be done is to assess the monetary award.” We find these facts not only novel, but unique. Indeed, the purchase, which rendered Harrison and ABKCO adversaries, occurred in the context of a lawsuit in which ABKCO had been the prior protector of Harrison’s interests. Thus, although not wholly analogous to the side-switching cases involving attorneys and their former clients, this fact situation creates clear questions of impropriety. On the unique facts presented herein, we certainly cannot say that Judge Owen’s findings and conclusions were clearly erroneous or not in accord with applicable law.

Appellant ABKCO also contends that even if there was a breach of duty, such breach should not limit ABKCO’s recovery for copyright infringement because ABKCO’s conduct did not cause the Bright Tunes/Harrison settlement negotiations to fail. *See* 508 F. Supp. at 803 & n. 15. Appellant urges, in essence, that a finding of breach of fiduciary duty by an agent, to be actionable, must be found to have been the proximate cause of injury to the principal. We do not accept appellant’s proffered causation standard. An action for breach of fiduciary duty is a prophylactic rule intended to remove all incentive to breach—not simply to compensate for damages in the event of a breach. *See Diamond v. Oreamuno*, 24 N.Y.2d 494, 498, 248 N.E.2d 910, 912, 301 N.Y.S.2d 78, 81 (1969) (“[T]he function of [an action founded on breach of fiduciary duty] . . . is not merely to compensate the plaintiff for wrongs committed by the defendant but . . . ‘to prevent them, by removing from agents and trustees all inducement to attempt dealing for their own benefit in matters which they have undertaken for others, or to which their agency or trust relates.’”) (emphasis in original). Having found that ABKCO’s conduct constituted a breach of fiduciary duty, the district judge was not required to find a “but for” relationship between ABKCO’s conduct and lack of success of Harrison Interests’ settlement efforts.

ABKCO argues further that the offer to sell substantially what had been gained in the purchase from Bright Tunes to Harrison for \$700,000, and Harrison’s rejection of that offer, see *supra* note 7, bars Harrison Interests from obtaining a constructive trust in this action, *per Turner v. American Metal Co.*, 268 A.D. 239, 50 N.Y.S.2d 800 (1st Dep’t 1944) (where former fiduciary offers former employer what he obtained in violation of fiduciary duty at price equivalent to his cost of acquisition and former employer refuses offer, fiduciary not held liable for breach of duty), *appeal dismissed*, 295 N.Y. 822, 66 N.E.2d 591 (1946). We find this argument unpersuasive. First, in *Turner*, unlike the case at bar, there was no finding of breach of fiduciary duty. Moreover, we find somewhat disingenuous ABKCO’s claim that a \$700,000 offer was a “price equivalent to his cost of acquisition,” which had been \$587,000. In any event, it is unclear whether that which ABKCO offered Harrison Interests was equivalent to that which ABKCO had bought from Bright Tunes.

NOTE

In another unusual situation, the Second Circuit upheld liability imposed upon an attorney and a business manager for fraud, breach of fiduciary obligation, and civil RICO (18 U.S.C. §§ 1962 (b), (c) and (d) (1988), providing for treble damages and attorneys’ fees). *Bingham v. Zolt*, 66 F.3d 553 (2d Cir. 1995.) The widow of reggae giant Bob Marley was entitled to 10% of his estate plus a life estate in an additional 45%. According to the court, the attorney, the business manager and the widow diverted millions from the estate

to offshore accounts (according to them, in order to minimize estate taxes). Plaintiffs' claims for negligence, gross negligence and conversion were time-barred. However, according to the Second Circuit, the four-year RICO statute of limitations incorporates the "separate accrual rule," with each cause of action arising when the plaintiffs knew or should have known of the defendants actions.

Chapter 2

TALENT CONTRACTS

2.1 INTRODUCTION

In the document-intensive business of entertainment, the acquisition of rights to talent and the process of negotiating and drafting talent agreements go to the heart of most legal and business transactions. A finished motion picture is delivered to the studio only after extensive contract negotiations and drafting for the rights to the talent and services of screenwriters, consultants, a producer, a director, cinematographer, music supervisor, actors and actresses, and scores of other individuals whose talents are required to complete a motion picture—those who are generally credited in the main or end titles of the motion picture. Transactions for rights to talent are complex and vital and are often negotiated under difficult deadlines.

In each of the industries we examine, there are scores of ever-evolving and highly detailed contracts for talent that constitute and formalize the “deal.” The negotiation and drafting of these particular agreements, as well as the agreements to secure rights which are discussed in Chapter 3, below, are the focus of law practice for that segment of the bar known as “entertainment lawyers.” For other industry lawyers, it is the litigation involving the enforcement of those contracts that is the focus.

Much of the complexity of these entertainment industry contracts can be traced to a number of persistent trends: *innovation*—the seemingly regular appearance of new technologies requiring ever more programming, and offering attractive new markets for old programming, *consolidation*—the continuing trend toward mergers and acquisitions on the part of existing entertainment conglomerates, *internationalization*—the increasing necessity to create programming which appeals to a worldwide audience, and *inflation*—the steady climb in the cost of programming. In addition to these factors, there are the factors of “unpredictability” and “creativity.” If one looks across the spectrum of the entertainment industries, a unique phenomenon becomes apparent: The businesses are highly unpredictable with many failures and few successes. Most books,

songs, records, plays, television series, and films are unsuccessful and lose money, but those few that are successful become the blockbusters that will more than offset the losses on the majority that fail. For example, the failure rate of records (measured by whether or not a particular recording fails to recoup its recording costs) has consistently been over 80 percent. Not only does the contract have to cover the phenomena of innovation, consolidation, internationalization, and inflation well into the future, it must also anticipate both the unlikely blockbuster and the more likely flop and be relevant to both scenarios (or anything in between).

Added to these complications is the reality that we are not simply dealing with an unpredictable, ever-evolving business—a business that is constantly being challenged by changes in technology. We are dealing with a creative process in which artistic vision is subjective and unpredictable. The clash between “art” and “commerce” is a constant theme both in negotiations and in litigation involving entertainment contracts, for the artistic value of any entertainment property or talent is mostly subjective. Will (and *can*) the book publishing contract address those situations where the publisher is unhappy with the book it has paid the author to write, or where the record company does not wish to release the record the artist has chosen to record, or where the director’s vision for the film becomes diametrically opposed to that of the financing studio?

The form, length and number of contracts utilized in each of the various entertainment industries are quite different, reflecting the very different businesses that make up the entertainment industries. However, such contracts will contain many common provisions and address similar issues and concerns. The contract for the publication of a book may consist of a single document no greater in length than the introduction to this book, while the contracts required in the production of a major motion picture will number in the hundreds (or, in some cases, thousands) of pages. In a motion picture deal, the lengthy negotiations and eventual agreements may involve some or all of the following parties: the owner of the underlying work, any persons whose lives (or, perhaps, properties) are portrayed in the film, screenwriters, investors, a banking institution, a producer, an “errors and omissions” insurance carrier, a completion guarantor, a director, actors and actresses, stunt persons, choreographers, film composers, music publishers, record labels owning recordings in the film or releasing the soundtrack record, and a distributor.

The contracts that constitute the deal generally fall into two broad categories: Those that secure the necessary rights to produce the entertainment property and those that secure the talent. Contracts which secure the talent are often personal service contracts and include the acquisition of rights owned or controlled by the talent. A book publisher, music publisher, record company, Broadway producer, television network, or film studio, in its efforts to develop and deliver entertainment properties, will contract for both rights (in existing works) and services (in future works or employment). For instance, a book publisher may seek to secure a license agreement for the paperback rights to an existing novel from its hardcover publisher which may also be the copyright owner, while simultaneously entering into an exclusive personal service contract with the author for the writer’s next three (then-unwritten) books.

Contracts for rights usually involve either copyright law (an area that we will touch upon but which is generally beyond the scope of this book) or personal rights (which are addressed in Sections 3.2 through 3.5, below).

A contract for services is more complex, subject to greater statutory restriction, and more susceptible to potential conflict and resulting litigation for a number of reasons. We are dealing with creative individuals, as opposed to pre-existing property or personal rights and future creative services that may not meet (or may exceed) expectations in industries where the future is highly unpredictable. For these reasons, a basic understanding of contract law as applied to the practice of entertainment law is essential, as is an in-depth understanding and grasp of the unique aspects of personal service contracts and the interpretation and enforcement of those contracts.

In order to deliver the finished entertainment property, the “producer” (for example, the book publisher, record company, or film studio) must first secure the talents of the many individuals required to complete the project. Due to the enormous financial commitments that most entertainment properties require today (“inflation”), and in light of the fact that the book, the record, the television pilot, sitcom, or feature film may be years in the making, many of these contracts will be long-term exclusive personal service contracts. The unpredictability element of entertainment may require the producer to structure the term of that personal service contract on the basis of options. The inflation phenomenon may give the talent the bargaining position to command payment of an extraordinary fee and profit participation, regardless of whether their services are actually utilized (a so-called pay or play clause).

Unlike other industries, the entertainment industries are, to a large degree, based upon unique, intangible, and often highly idiosyncratic talents of individual performers or artists. This characteristic makes personal service contracts, from the perspective of the producer, all the more essential and disputes relating to their enforceability all the more heated. Without the individual songwriter and the acquisition of certain rights in and to the songs he or she composes, the music publishing company cannot do business. Likewise, the motion picture company is in need of personal service contracts for many individuals in order to produce a film, including actors, actresses, director, producer, cinematographer, and composer.

The entertainment industries utilize personal service contracts in a number of different contexts. The duration of such contracts differs dramatically, depending upon the particular industry, the financial commitment of the employer, and the relative bargaining position of the parties. Traditionally, the term of a book publishing agreement with an author is based upon delivery of a satisfactory manuscript for a specific book, with an occasional option for the author’s next work. In today’s record business, however, the label will generally require the artist’s exclusive commitment for a term that can last many years, tied to delivery of finished records—in many cases, up to eight or more albums.

Initially, the motion picture industry signed its talent to long-term personal service agreements. Commencing in the 1920s, through what was known as the “star system,” actors, actresses, directors, and writers typically signed exclusively with one studio for a number of years. For example, in *De Haviland v. Warner Brothers Pictures*, note the terms and conditions under which Olivia De Haviland entered into an exclusive personal service contract with the studio for seven years (see Section 2.3.1). With the decline of movie attendance in the 1940s and thereafter, as the bargaining position of the stars increased and inflation raised the stars’ salaries dramatically, the studios became less able (and also less willing) to enter into long-term personal service contracts with talent. The trend in the

film industry has been toward short-duration or nonexclusive personal service contracts, and most actors, actresses, directors, and screenwriters today enter into personal service contracts on a film-by-film basis.

Nonetheless, in recent years film studios have sought and secured long-term, multi-picture contracts—often for seven- or eight-figure guaranties—with some major directors, producers, actors, and actresses. Such an exclusive agreement between producers Peter Guber and Jon Peters and Warner Bros. Pictures became the subject of litigation and a highly publicized settlement between Warner Bros. and Sony in the course of the latter's acquisition of Columbia Pictures and its effort to secure the services of Guber/Peters to run the studio. However, exclusive long-term personal service contracts still are commonplace in the television industry. They are used by both the networks and the independent television producers engaged by the networks to produce and deliver episodic television shows.

Some of the most intensive, publicized, and costly court battles in the entertainment industries involve the enforcement of exclusive long-term personal service contracts—and for good reason. In many instances, such contracts are negotiated when the relative bargaining positions between the employer and employee are unequal. These contracts, which affect the ability of talent to earn a living, address the future services of a talent whose future success (or lack thereof) cannot be anticipated at the time of execution. Finally, these contracts deal with the subjective creative process, during which the parties may disagree and an employee may unilaterally reach the conclusion that he or she can no longer work with the employer and decide to seek work elsewhere. The enforceability of a personal service contract depends upon a number of issues, including:

- Existence of a formal contract between the parties
- Whether such contract is in writing
- Whether the services are exclusive or nonexclusive
- Term of the agreement
- Applicable statutory restrictions on the term
- Provisions for options or extension of the term
- Consideration flowing to the artist
- Services to be performed by the artist
- Effect and nature of a breach of the contract by artist or company
- Availability and type of injunctive relief
- Controlling state laws and possible exclusivity of the forum hearing any disputes concerning the contract

State laws may dictate whether a formal contract exists between parties, under what terms and conditions that contract may be enforced, and for how long such contract may endure. The great majority of entertainment contracts negotiated today are entered into and performed in the states of New York and California. Because the entertainment industries are so firmly entrenched in those states, extensive regulations of the entertainment industries exist in those jurisdictions. Accordingly, a thorough understanding of the statutes of these jurisdictions is essential in order to determine the ultimate validity or invalidity of a contract.

Likewise, a significant number of personal services contracts in entertainment are with minors, and the enforceability of such contracts is specifically contingent upon the applicable statutes of the jurisdiction.

We will first discuss problems involving agreements with minors, whether contracts need to be in writing and other problems encountered in making a binding agreement. We then consider the terms and conditions of the personal services contract and the remedies available under that contract.

2.2 CONTRACTS WITH MINORS

Additional considerations arise when a personal service contract involves a minor. A child artist, whether ingenue or enfant terrible, is often vital to the success of a production. Where the services of a minor must be obtained, the company seeking the minor's services will seek to secure either (or both) rights to future services (that is, a personal service contract) or rights to performance or likeness (that is, a release).

A minor's right to disaffirm a contract (and the California provision for approval of entertainment industry employment contracts for minors) is inapplicable to a situation where a parent or next friend has executed a valid release (under § 3344 of the California Civil Code, which recognizes the validity of parental consents to name or likeness releases), even though the subject was nude photographs of minor children published in *Hustler* magazine. See *Faloota by Frederickson v. Hustler Magazine, Inc.*, 607 F. Supp. 1341 (N.D.Tex. 1985), *aff'd*, 799 F.2d 1000 (5th Cir. 1986), *reh'g denied*, 802 F.2d 455 (5th Cir. 1986), *cert. denied*, 479 U.S. 1088 (1987). A New York case with virtually the same facts and holding as the *Faloota by Frederickson* decision in Texas is *Shields v. Gross*, 58 N.Y.2d 338, 448 N.E.2d 108, 461 N.Y.S.2d 254, (1983), which confirmed that under New York law a minor could not disaffirm an otherwise valid written consent from his/her parent or guardian that was specifically authorized under New York Civil Rights Law §§ 50 and 51.

A company which enters a personal services or literary property contract with a minor may also wish to contract with the minor's parents. The provisions of such an agreement may well include clauses in which the parents relinquish the custody, control, or earnings of a minor, covenant that they will not interfere with the performance of a minor's services under the contract, and, in certain circumstances, guarantee the obligation of performance by the minor. Generally, these agreements are enforceable against the minor's parents. In *Lustig v. Schoonover*, 51 N.Y.S.2d 156 (N.Y. Sup. Ct. 1944) *aff'd*, 269 A.D. 830, 56 N.Y.S.2d 415 (1945), parents who had signed a management agreement could not avoid liability even though the minor child subsequently sought to disaffirm the contract.

Companies employing minors in the entertainment industries in California are also subject to a number of administrative restrictions implemented to protect the health and safety of minors. See California Administrative Code, Title 8, Section 11750, *et seq.* In addition, the Screen Actors Guild has special provisions with respect to the employment of minors in its basic agreement. See Akiyama, "Employing Minors in the *Entertainment Industry*," 1987 *Entertainment, Publishing, and the Arts Handbook*, 465. Also see Jacobson, "Minors' Contracts in the Entertainment Industry," in *Entertainment Law* 355 (1989).

All states have general provisions that deal with minors' contracts. Although

definitions of a minor vary, a majority of state statutes now provide that a minor is any person under 18 years of age. The following sections explore problems with entertainment contracts involving minors in the states of California and New York.

2.2.1 California Provisions on Minors

A contract in California between a minor and a talent agency is controlled by the California Family Code. An agreement cannot be disaffirmed if the contracting party seeking the services of the minor has complied with the court approval provisions contained in the Family Code.

The age of majority in California has been 18 since 1971, under *California Civil Code* § 25. It is incumbent on the employer to make an actual determination of whether or not the employee is a minor. A minor's misrepresentation of age does not alter the consequences of dealing with the minor. See *Lee v. Hibernia Savings & Loan*, 171 P. 677 (Cal. 1918), and *Williams v. Leon T. Shettler Co.*, 276 P. 1065 (Cal. 1929).

The major risk in entering into a contract with a minor is that generally the contract is voidable at the option of the minor at any time, either before the minor's majority or within a reasonable time thereafter. The power to disaffirm a contract, including a personal services contract, is embodied in California Family Code § 6750.

When a valid contract is approved by the Superior Court in California (see California Family Code § 6751), significant limitations are then placed on the ability of a minor to disaffirm. The court-approval process is available with respect to contracts in which a minor is employed "to render artistic or creative services" in virtually any realm of the entertainment industry.

In California, a court-approved contract may extend to option periods. In *Warner Bros. Pictures v. Brodel*, 192 P.2d 949 (Cal. 1948), a minor attempted to disaffirm the option period in an otherwise valid contract that had previously been approved by the Superior Court. However, the Superior Court's approval of the contract was upheld, the option period was binding, and the minor's later attempt to disaffirm was denied.

2.2.2 New York Provisions on Minors

In New York, until 1983, a general statute provided for minors' contracts, including judicial approval of certain types of contracts (see old New York General Obligations Law § 3-105). Under this statute, if a contract met the statutory requirements and was duly approved by a court, the minor could not disaffirm during his minority or upon reaching his majority. In 1983, § 3-105 was repealed and replaced by *New York Arts and Cultural Affairs Law* § 35.03. The scope of the act was narrowed to focus on minors entering entertainment, arts, and sports contracts. (For contracts involving employment of children as models, see N.Y. Arts and Cultural Affairs Law § 35.05.)

The means by which New York courts approve minors' contracts and the consequences flowing therefrom are sufficiently important to set forth basic provisions of § 35.03, as follows:

35.03. Judicial approval of certain contracts for services of infants; effect of approval; guardianship of savings

1. A contract made by an infant or made by a parent or guardian of an infant, or a contract proposed to be so made, under which (a) the infant is to perform or render services as an actor, actress, dancer, musician, vocalist or other performing artist, or as a participant or player in professional sports, or (b) a person is employed to render services to the infant in connection with such services of the infant or in connection with contracts therefor, may be approved by the supreme court or the surrogate's court as provided in this section where the infant is a resident of this state or the services of the infant are to be performed or rendered in this state. If the contract is so approved the infant may not, either during his minority or upon reaching his majority, disaffirm the contract on the ground of infancy or assert that the parent or guardian lacked authority to make the contract. A contract modified, amended or assigned after its approval under this section shall be deemed a new contract.

2. . . . (c) No contract shall be approved unless (i) the written acquiescence to such contract of the parent or parents having custody, or other person having custody of the infant, is filed in the proceeding or (ii) the court shall find that the infant is emancipated.

(d) No contract shall be approved if the term during which the infant is to perform or render services or during which a person is employed to render services to the infant, including any extensions thereof by option or otherwise, extends for a period of more than three years from the date of approval of the contract. If the contract contains any other covenant or condition which extends beyond such three years, the same may be approved if found to be reasonable and for such period as the court may determine.

(e) If the court which has approved a contract pursuant to this section shall find that the well-being of the infant is being impaired by the performance thereof, it may, at any time during the term of the contract during which services are to be performed by the infant or rendered by or to the infant or during the term of any other covenant or condition of the contract, either revoke its approval of the contract, or declare such approval revoked unless a modification of the contract which the court finds to be appropriate in the circumstances is agreed upon by the parties and the contract as modified is approved by order of the court. . . .

3. (a) The court may withhold its approval of the contract until the filing of consent by the parent or parents entitled to the earnings of the infant, or of the infant if he is entitled to his own earnings, that a part of the infant's net earnings for services performed or rendered during the term of the contract be set aside and saved for the infant pursuant to the order of the court and under guardianship as provided in this section, until he attains his majority or until further order of the court. Such consent shall not be deemed to constitute an emancipation of the infant.

(b) The court shall fix the amount or proportion of net earnings to be set aside as it deems for the best interests of the infant, and the amount or proportion so fixed may, upon subsequent application, be modified in the discretion of the court, within the limits of the consent given at the time the contract was approved. . . .

6. At any time after the filing of the petition the court, if it deems it advisable, may appoint a special guardian to represent the interests of the infant. . . .

8. (a) The infant shall attend personally before the court upon the hearing of the petition. Upon such hearing, and upon such proof as it deems necessary and advisable, the court shall make such order as justice and the best interests of the infant require. . . .

The case of *Prinze v. Jonas*, 345 N.E.2d 295 (N.Y.Ct.App. 1976), suggests a cautionary note concerning the question of whether judicial approval (or lack

thereof) is the *sine qua non* of enforceability of a minor's contract under New York law. Although *Prinze* was decided under the New York General Obligations Law, cited above, the provisions of that law are not materially different from those of the recently enacted Arts and Cultural Affairs Law, particularly § 35.03. Thus, there is no reason to believe that future New York courts will deviate from the *Prinze* holdings.

In *Prinze*, the court recognized that a contract with a minor, even though it could not be approved by a court under the then-applicable § 3-105, could nevertheless still be found to be "reasonable and provident" to the minor, and thus enforceable under N.Y. General Obligations Law § 3-101. Judicial approval, therefore, was not necessarily a condition precedent to an enforceable contract with a minor.

The *Prinze* court went even further in its evaluation of the enforceability of an arbitration clause contained in the contract in dispute. The court held that its function was merely to review whether the arbitration clause was reasonable. If it was reasonable, the arbitrator, not the court, should rule on the ultimate validity of the contract itself. Thus, an arbitrator, called into the dispute only because of the contract clause, could then rely on that clause to establish jurisdiction over the dispute and resolve the validity of the contract. The arbitrator could uphold or void the contract; even in voiding, the arbitrator was still empowered to act because of the contract clause.

No New York court has faced this same conundrum under current law, but there is little reason to believe *Prinze v. Jonas* is anything other than binding precedent. Under the Arts and Cultural Affairs statutes, § 35.01 tracks the old § 3-101 as to "reasonable and provident" contracts in a minor's business, and § 35.03 tracks the old § 3-105 as to the grounds for judicial approval of a contract. A New York court reviewing an arbitration clause in a minor's contract would face essentially the same problems of reconciling various statutory provisions as were analyzed and resolved in *Prinze*.

In New York, even if a minor has the right to disaffirm the agreement, are commissions still due and owing under the terms of a personal management agreement? As is demonstrated in the *Scott Eden Management* case that follows, the minor's ability to disaffirm may not extend to the fee for the "airplane ride" then concluded.

**Scott Eden Management v. Andrew Kavovit, 563 N.Y.S.2d 1001 (Sup.
Ct. N.Y. County 1990)**

COPPOLA, JUSTICE

In this case of first impression, an infant actor has disaffirmed a personal services contract. He thereby seeks to avoid responsibility to his manager for commissions due in the future on income from performance contracts already obtained for him by the manager.

The salient facts are not in dispute. In 1984, when defendant Andrew M. Kavovit was twelve years of age, he and his defendant parents entered into a contract with plaintiffs ("Scott Eden") whereby Scott Eden became the exclusive personal manager to supervise and promote Andrew's career in the entertainment industry. This agreement ran from February 8, 1984 to February 8, 1986 with an extension for another three years to February 8, 1989. It provided that Scott Eden was entitled to a 15% commission on Andrew's gross compensation. "With respect to contracts entered into by [Andrew] . . . during the term of this agreement . . . [Scott Eden] shall be entitled to commission from the residuals or royalties of such contracts, the full term of such contracts, including all extensions

or renewals thereof, notwithstanding the earlier termination of this agreement.” (Paragraph “Tenth” of the Agreement.)

In 1986, Andrew signed an agency contract with the Andreadis Agency, a licensed agent selected by Scott Eden pursuant to industry requirements. This involved an additional 10% commission. Thereafter, Andrew signed several contracts for his services. The most important contract, from a financial and career point of view, secured a role for Andrew on “As the World Turns,” a long-running television soap opera. Income from this employment contract appears to have commenced on December 28, 1987 and continues through December 28, 1990, with a strong possibility for renewal.

One week before the contract with Scott Eden was to expire, Andrew’s attorney notified Scott Eden that his “clients hereby disaffirm the contract on the grounds [sic] of infancy . . .” Up until then, the Andreadis Agency had been forwarding Scott Eden its commissions, but by letter of February 4, 1989, Andrew’s father, David Kavovit, advised Andreadis that Andrew’s salary would go directly to Andrew and that he would send Andreadis its 10%. Needless to say, no further commissions were sent to Scott Eden.

The complaint seeks money damages for (1) all sums due plaintiffs for commissions relating to Andrew’s personal appearances prior to February 8, 1989, the date of disaffirmance, (2) all sums due plaintiff for commissions with respect to contracts entered into by Andrew in the entertainment or promotion fields during the term of his contract with plaintiffs, “i.e., commissions from the residuals or royalties of such contracts—the full term of such contracts—including all extensions or renewals thereof”, and (3) \$50,000 for tortious interference with the relationship between plaintiff and the Andreadis Agency.

Issue was joined and examinations before trial were held. Defendants have now brought this motion for summary judgment upon the ground that no genuine, triable issues exist.

An infant’s contract is voidable and the infant has an absolute right to disaffirm (*General Obligations Law* Sec. 3–101; *Continental Nat. Bk. v. Strauss*, 137 N.Y. 148, 32 N.E. 1066; *Casey v. Kastel*, 237 N.Y. 305, 142 N.E. 671; *Joseph v. Schatzkin*, 259 N.Y. 241, 181 N.E. 464; and see G.O.L. Sec. 3—107 with regard to the absence of parental liability either as parties or guarantors.) This aspect of the law of contracts was well-entrenched in the common law as early as the fifteenth century (*Williston on Contracts, Third Edition Section 223*). In bringing this action, and defending the motion, plaintiffs fully recognize the principle of law involved here and in no way challenge the infant’s right to disaffirm. Rather, plaintiffs rely upon a corollary to the main rule, which also evolved early in the Common Law:

After disaffirmance, the infant is not entitled to be put in a position superior to such a one as he would have occupied if he had never entered into his voidable agreement. He is not entitled to retain an advantage from a transaction which he repudiates. “The privilege of infancy is to be used as a shield and not as a sword.” (Kent, vol. 2, p. 240; *Rice v. Butler*, 160 N.Y. 578), *Joseph v. Schatzkin*, 259 N.Y. 241, 244, 181 N.E. 464.

As stated differently by the same Court in an earlier case involving an infant’s disaffirmance:

The theory of a rescission is that the party proceeded against shall be restored to his original position. The plaintiff cannot rescind if he retains in himself or withholds

through another any fruit of the contract. *Frances v. New York and Brooklyn Elevated Railroad Co.*, 108 N.Y. 93, 97, 15 N.E. 192.

The restoration of consideration requirement found voice in CPLR 3004 which states that the infant need not tender restoration of benefits received prior to disaffirmance “but the court may make a tender of restoration a condition of its judgment, and may otherwise in its judgment so adjust the equities between the parties that unjust enrichment is avoided.” (See *Williston on Contracts, Third Edition Section 238*, especially n. 9, as to the apparent historical setting of this provision).

The restoration of consideration principle, as interpreted by the courts, has resulted in the infant being responsible for wear and tear on the goods returned by him. [Citations omitted.] In the event that the minor cannot return the benefits obtained, he is effectively precluded from disaffirming the contract in order to get back the consideration he has given. In *Vichnes v. Transcontinental & Western Air*, 173 Misc. 631, 18 N.Y.S.2d 603) the infant paid the air fare from New York to Los Angeles. On returning to New York she demanded the return of her money. Appellate Term granted summary judgment to defendant because “there is no basis for rescission here in view of the concession that the reasonable value of the transportation was the sum paid by plaintiffs” (at 631, 18 N.Y.S.2d 603).

The parties have not cited, nor has the Court found, a case dealing with the exact issue at bar, i.e. whether disaffirmance may void the contractual obligation to pay agents’ commissions without any concomitant exchange being made. However, an analogy may be drawn from the case of *Mutual Milk & Cream Co. v. Prigge*, 112 App. Div. 652, 98 N.Y.S. 458). There, a minor had entered the employ of the plaintiff as a milk wagon driver and had signed a contract which included a restrictive covenant wherein the minor agreed not to solicit plaintiff’s customers within three years after leaving plaintiff’s employ. Several months after entering into the contract, the minor quit, pursuant to the terms of the contract, but then went to work for plaintiff’s rival and solicited business from plaintiff’s customers.

The Appellate Division affirmed the issuance of an injunction against the minor, who had pleaded infancy in avoidance of the contractual obligations. The court considered that the issue was not one of liability of an infant for a breach of his contract, but whether an infant should be allowed to repudiate his contract without restoring what he had received and, if restoration could not be made, without being enjoined from making use of the information he had gained from his employment by the plaintiff to the latter’s damage. The Court held that the infant should be enjoined “from making use of that information, in violation of his agreement made at the time when he desired and obtained employment, and upon the faith of which he obtained the information and acquaintance.” The Court further noted that “No man would engage the services of an infant if he could not impose the same condition for his own protection against the use of his formulas, trade secrets, and lists of customers that he could exact of an adult.”

The rationale of the *Mutual Milk* case is applicable to this case. The work a personal manager does for and with his client is preparatory to the performance contract. Once a performance contract has been signed, the personal manager is entitled to his percentage fee, subject only to the condition subsequent that the client performs and earns his fee. This is clearly the understanding in the industry, unlike, for example, the standard in the insurance field where the initial commission is disproportionately high and the subsequent, smaller commissions

are viewed as consideration for continued efforts in keeping the insurance contract current. When the client signs a performance contract, it is with the understanding that the gross amount to be paid is not solely for him. It is the expectation of all parties—the agent, the performer and, in this case, the soap opera production company, that 15% of that gross amount belongs to the personal manager. To the extent that the performer obtains that 15% for himself, he is unjustly enriched.

Here, the position adopted by defendants is no different than that advanced on behalf of the infant who had taken the airplane ride and wanted her money back or the truck driver who had milked his employer's efforts and tutelage and then refused to honor his reciprocal commitment. In each case, the infant consumed the fruits of the contract and refused to pay for that fruit, to the clear prejudice of the other party. In this case, the infant will continue to reap the benefits of his contract with plaintiff but is using his infancy as an excuse not to honor the promise made in return for that benefit.

If the argument asserted by defendants were adopted by the Court, the infant would be put in a position superior to that which he would have occupied had he never entered into the contract with plaintiff. He would be retaining an advantage from the repudiated transaction, i.e., using the privilege of infancy as a sword rather than a shield. Not only is this manifestly unfair, but it would undermine the policy underlying the rule allowing disaffirmance. If the infant may rescind the contract with the manager immediately after a lucrative performance contract is signed, yet still retain the benefits of the performance contract, no reputable manager will expend any efforts on behalf of an infant.

In this case, adjustment of the equities so as to prevent unjust enrichment, as suggested by CPLR 3004, leads to the conclusion that defendants must continue to pay to plaintiffs all commissions to which plaintiffs would be entitled under their contract, as they become due. Thus, on the first two causes of action summary judgment is denied to defendants and is granted to plaintiffs to the extent that they shall be restored to their original condition. Moreover, inasmuch as plaintiffs will no longer be involved in the day to day personal management of the infant, they will be entitled to periodic statements regarding Andrew's income and the sources thereof and they shall have the right to annual inspections of the books and records kept with regard to Andrew's income.

The third cause of action is dismissed. Plaintiffs have come forward with no proof to buttress their conclusory claim that defendants have tortiously interfered with their business relationship with the Andreadis Agency.

The Court notes that this entire situation may have arisen due to a misreading of a statute which is related to the problem at hand but irrelevant to its determination. The affidavit of David J. Kavovit makes reference to Arts and Cultural Affairs Law Sec. 35.03 as a bar to this action and that "I am advised that the agreement was void at its inception by reason of the fact that its term, including options to extend, exceeded a three year period of time." (Par. 13).

Section 35.03 (formerly G.O.L. Sec. 3-105, formerly DRL Sec. 74) provides for judicial approval of infants' contracts in order to avoid later disaffirmance. However, no such contract may be approved if it extends for a period of more than three years, whether by option or otherwise. However, the purpose of the statute was to limit the infant's right to disaffirm. If there is no judicial approval, for whatever reason, then the statute has no effect upon the infant's contract or

upon his right to disaffirm (*Matter of Prinze*, 38 N.Y.2d 570, 381 N.Y.S.2d 824, 345 N.E.2d 295).

2.3 CONTRACT DURATION

2.3.1 The California Seven-Year Statute

In the 1920s and 1930s, Hollywood movie moguls developed the “star” system, which involved promotion of actors and actresses into something larger than life. At heart, it was a way to exploit the public by heightening interest in the stars and increasing the box office. As it developed, it was exploitation of the stars as well. The trick was to find young talent, sign them to unconscionably long contracts, and then hope that promotion and luck would make them stars in the public perception.

The usual vehicle through which a young actor or actress entered the system was a “studio” contract. In agreeing to a contract, the talent might be bound for ten years or more, at a salary that would later prove to be well below market value. At length, the California legislature tempered studio contracts by enacting a seven-year limit on the studio’s ability to enforce personal service contracts. Other protections, to both employer and employee, were added.

Today, California is unique with its limitations on the duration of personal service contracts. Since so many entertainment transactions are subject to California law, the California enactments require thorough analysis. We begin with § 2855 of the California Labor Code; then we discuss important cases that have applied this legislation.

§ 2855. Enforcement of contract to render personal service; time limit

(a) Except as otherwise provided in subdivision (b), a contract to render personal service . . . may not be enforced against the employee beyond seven years from the commencement of service under it. Any contract, otherwise valid, to perform or render service of a special, unique, unusual, extraordinary, or intellectual character, which gives it peculiar value and the loss of which can not be reasonably or adequately compensated in damages in an action at law, may nevertheless be enforced against the person contracting to render such service, for a term not to exceed seven years from the commencement of service under it. If the employee voluntarily continues his service under it beyond that time, the contract may be referred to as affording a presumptive measure of the compensation.

(b) Notwithstanding subdivision (a):

(1) Any employee who is a party to a contract to render personal service in the production of phonorecords in which sounds are first fixed, as defined in Section 101 of Title 17 of the United States Code, may not invoke the provisions of subdivision (a) without first giving written notice to the employer in accordance with Section 1020 of the Code of Civil Procedure, specifying that the employee from and after a future date certain specified in the notice will no longer render service under the contract by reason of subdivision (a).

(2) Any party to such a contract shall have the right to recover damages for a breach of the contract occurring during its term in an action commenced during or after its term, but within the applicable period prescribed by law.

(3) In the event a party to such a contract is, or could contractually be, required to render personal service in the production of a specified quantity of the phonorecords and fails to render all of the required service prior to the date specified in

the notice provided in paragraph (1), the party damaged by the failure shall have the right to recover damages for each phonorecord as to which that party has failed to render service in an action which, notwithstanding paragraph (2), shall be commenced within 45 days after the date specified in the notice.

Also related to the issue of duration of employment are §§ 2924 and 2925 of the Labor Code, covering, respectively, the rights of an employer and an employee to terminate. These sections are set forth in Section 2.3.2 below.

De Haviland v. Warner Brothers Pictures, 153 P.2d 983
(Cal.Ct.App. 1944)

SHINN, J.

Defendant has appealed from a judgment declaring at an end its contract for the services of plaintiff as a motion picture actress. The ground of the decision was that the contract had run for seven years, the maximum life allowed such contracts by former Civil Code, section 1980, now section 2855 of the Labor Code. It was executed April 14, 1936, for a term of fifty-two weeks and gave the employer the right to extend the term for any or all of six successive periods of fifty-two weeks each. These options were exercised from time to time by the employer so as to cover the entire contract period. The services commenced May 5, 1936, and, except as interrupted by certain periods of suspension, were continued to August 13, 1943. The present action was commenced August 23, 1943. The contract gave the producer, defendant, the right to suspend plaintiff for any period or periods when she should fail, refuse or neglect to perform her services to the full limit of her ability and as instructed by the producer and for any additional period or periods required to complete the portrayal of a role refused by plaintiff and assigned to another artist. Plaintiff was to receive no compensation while so suspended or thereafter until she offered to resume her work. It was provided that the producer had the right to extend the term of the contract at its option, for a time equal to the periods of suspension. There were several such suspensions after December 9, 1939, and one suspension of thirty days which plaintiff agreed to and which was occasioned by her illness. In each instance defendant exercised its right to extend the term of the agreement. The several periods of suspension totaled some twenty-five weeks. The facts as to the suspensions are not in dispute; defendant's right to impose them is not questioned. Plaintiff's reason for refusing the several roles was that they were unsuited to her matured ability and that she could not faithfully and conscientiously portray them. Her good faith and motives are not in issue, but according to the contract the producer was the sole judge in such matters and she had to do as she was told. The sole question is whether the provisions for suspension, and for extension of the term of the agreement, were lawful and effective insofar as they purported to bind plaintiff beyond seven years from the date her services were commenced. If they were lawful, plaintiff still owes twenty-five weeks of service; otherwise the contract came to an end May 5, 1943. . . .

If we are to accept defendant's construction of [Sec. 2855] as amended, we must add words to the phrase used in the proviso so that it would read "for a term not beyond a period of seven years of *actual service* from the commencement of service under it." In fact, the words "of actual service" could have been used appropriately after the word "term" and also after the words "seven years"

if it had been the intention to do away with the limitation of seven calendar years from the commencement of service. It is true that the exception in the first clause of contracts for exceptional services, to which the proviso relates, suggests a possible intention to take such contracts out of the general rule, but the proviso itself is the enacting clause and the controlling one. It is the clause which determines whether the general limitation was intended to be removed as to contracts for exceptional services. Defendant's contention is that there could have been only one purpose in amending the section, namely, to allow the enforcement against employees of contracts for personal services to the extent of seven years of actual service, regardless of the time over which such services might extend. With this we cannot agree. The difficulty with the argument, and which we think is insurmountable, is that the Legislature has not used the words "of service," and the failure to use those or equivalent words is far more significant as indicating the purpose of the enactment than the entire amendment as written. We cannot believe that the phrase "for a term not beyond a period of seven years" carries a hidden meaning. It cannot be questioned that the limitation of time to which section 1980 related from 1872 to 1931 was one to be measured in calendar years. It is conceded that contracts for general services are limited to seven calendar years. The substitution of years of service for calendar years would work a drastic change of state policy with relation to contracts for personal services. One would expect that such a revolutionary change, even as applied to a particular class of contracts, would be given expression in clear and unmistakable terms. . . .

We have not overlooked the earnest arguments of counsel as to whether a producer of motion pictures should or should not have the right to the exclusive services of an artist for a period of seven years of service. It is to be presumed that the Legislature considered such matters in legislating upon the subject, but the arguments do not aid us in determining what the code sections mean. While the purpose sought to be accomplished in the enactment of a statute may be considered as an aid to interpretation, the question whether the Legislature has acted at all in a given particular must find answer in the statute itself. We think the expressions of the various enactments cannot be bent to a shape that will fit defendant's argument, and that the several extensions of plaintiff's contract due to her suspensions were ineffective to bind her beyond May 5, 1943, seven years after her services commenced.

A second contention is that if defendant had not the right under the code to demand seven years of service, plaintiff has waived the right to question the validity of the extensions, which carried beyond the seven-year period. By her breaches of the contract, it is claimed, she brought into operation the provisions for extension and is now estopped to avoid them. Defendant relies upon section 3513 of the Civil Code, reading as follows: "Anyone may waive the advantage of a law intended solely for his benefit. But a law established for a public reason cannot be contravened by a private agreement." Defendant insists that the limitations of said sections 1980 and 2855 were enacted solely for the benefit of employees and not for a public reason, and may be waived. . . .

The fact that a law may be enacted in order to confer benefits upon an employee group, far from shutting out the public interest, may be strong evidence of it. It is safe to say that the great majority of men and women who work are engaged in rendering personal services under employment contracts. Without their labors the activities of the entire country would stagnate. Their welfare is

the direct concern of every community. Seven years of time is fixed as the maximum time for which they may contract for their services without the right to change employers or occupations. Thereafter they may make a change if they deem it necessary or advisable. There are innumerable reasons why a change of employment may be to their advantage. Considerations relating to age or health, to the rearing and schooling of children, new economic conditions and social surroundings may call for a change. As one grows more experienced and skillful there should be a reasonable opportunity to move upward and to employ his abilities to the best advantage and for the highest obtainable compensation. Legislation which is enacted with the object of promoting the welfare of large classes of workers whose personal services constitute their means of livelihood and which is calculated to confer direct or indirect benefits upon the people as a whole must be presumed to have been enacted for a public reason and as an expression of public policy in the field to which the legislation relates. . . .

The power to restrict the right of private contract is one which does not exist independently of the power to legislate for the purpose of preserving the public comfort, health, safety, morals and welfare. The power to provide for the comfort, health, safety and general welfare of any or all employees is granted to the Legislature by article XX, section 17 1/2 of the state Constitution. Enactments exercising the power have been upheld in many instances. . . . The rights of employees as now declared by section 2855 of the Labor Code fall squarely within the prohibition of section 3513 of the Civil Code, that rights created in the public interest may not be contravened by private agreement.

Finally, it may be pointed out that the construction of the code sections contended for by defendant would render the law unworkable and would lead to an absurd result. If an employee may waive the statutory right in question by his conduct, he may waive it by agreement, but if the power to waive it exists at all, the statute accomplishes nothing. An agreement to work for more than seven years would be an effective waiver of the right to quit at the end of seven. The right given by the statute can run in favor of those only who have contracted to work for more than seven years and as these would have waived the right by contracting it away, the statute could not operate at all. It could scarcely have been the intention of the Legislature to protect employees from the consequences of their improvident contracts and still leave them free to throw away the benefits conferred upon them. The limitation of the life of personal service contracts and the employee's rights thereunder could not be waived. . . .

NOTES

1. An important aspect of the *De Haviland* decision is the unreported facts in the case. The original contract with the studio was for a period of less than seven years. De Haviland was a minor at the time of its execution, and accordingly, the contract was approved by the Los Angeles Superior Court as being "just, fair and conscionable and to be in the best interest of Olivia De Haviland." The extensions of the term of the contract were occasioned by her own breaches and refusals to perform. Warner Brothers, in its unsuccessful appeal, argued:

On one occasion, Respondent [De Haviland] signed a written agreement approving the suspension dates; on another occasion Respondent herself requested and received an extension of the contract in order that she might absent herself from the studio for a period of four consecutive weeks commencing February 16, 1942. . . . Respondent alone is responsible for

the term of her service extending one day beyond seven calendar years. She asked for it on February 16, 1942. She benefitted by it.

If the statute can be waived, or if she can be estopped from hiding behind the statute, whatever its meaning may be, then in this case that statute has been waived and the estoppel exists. . . . Only a holding that L.C. 2855 is mandatory, absolute, and represents an expression of public policy and was established for a public reason, can in this case justify the granting of any relief herein to the artist.

2. In an unreported decision of the Los Angeles Superior Court filed in 1973, *Lukas aka Susan St. James v. Universal*, No. C54945, a mid-term extension was litigated under § 2855. The employment contract with Universal provided for an initial term of 26 weeks, with options for a possible total of seven years. Six months later, another employment agreement of seven-year potential was executed, with a condition that the first contract was terminated upon execution of the second. The issue raised by St. James and never resolved in that case was whether she was obligated to perform beyond the initial seven-year period under a second agreement, which she claimed was not negotiated “at arm’s length.”

3. In *Foxx v. Williams*, 244 Cal.App. 2d 223, 52 Cal. Rptr. 896 (2d Dist. 1966), an issue arose under § 2855. Dootone Records contended that § 2855 was inapplicable to its recording contract with comedian Red Foxx because Foxx was an independent contractor, while § 2855 applies only to an “employee.” Dootone had never withheld taxes on Foxx or paid Social Security taxes or state disability assessments for him. Nor had Dootone exercised any control over the creative aspects of Foxx’s material or performance. The court nonetheless found § 2855 applicable. The first two contracts between Dootone and Foxx had been denominated “contract for your personal services between Dootone Records as the employer, and you as the vocalist, and we hereby employ you for the purpose of making phonograph records.” Foxx recorded in the same manner under all three of his contracts, even though the last contract did not contain the quoted language. However, Dootone selected the times and places of recording, whether to invite an audience (and, if so, whom to invite), and the equipment to be used in recording (which it operated). The court distinguished *Ketcham v. Hall Syndicate, Inc.* (see below), because Ketcham turned in completed cartoon strips, whereas Foxx’s efforts were not complete until worked on by Dootone. The language of the earlier contracts, plus the consistent pattern of involvement of Dootone in the recording process, was sufficient to permit the court to find an employer-employee relationship which triggered the application of § 2855.

4. Lawyers have argued for years as to whether or not a mid-term renegotiation will serve to start the California seven-year statute running anew. One school of thought holds that only a “moment of freedom”—a release given under noncoercive circumstance—will suffice. In other words, the artist must be free to walk out of the room without signing a new contract so that the act of re-signing is perceived to be totally voluntary. Another view holds that a renegotiation involving substantial new consideration, entered into toward the end of a deal and for an independent business reason, should be sufficient to restart the seven-year period. In the case of *Melissa Manchester v. Arista Records, Inc.*, No. CV 81–2134 (C.D.Cal. Sept. 17, 1981), the court suggested (in an unpublished—and later withdrawn—opinion by Judge Robert J. Kelleher) that if the latter criteria were met, the statute could indeed be restarted. Manchester signed with Arista in 1973 while residing in New York. She later moved to California. In 1976, in order to obtain monies (\$145,000) with which to fund a settlement with her manager and terminate their agreement, Manchester entered into a further contract with Arista for an additional year at Arista’s option, to follow the end of the term of the original agreement. Due to late delivery of recordings by Ms. Manchester, Arista suspended the term of her agreement on several occasions so that, by the time Arista purported to exercise its one-year option under the 1976 agreement, Arista claimed that Manchester owed it three LPs, two under the original agreement and one under the additional agreement. Manchester refused to perform further, citing Labor Code § 2855. Both contracts contained forum selection and/or choice-

of-law clauses selecting New York. Ms. Manchester, however, contended that to uphold these would violate the strong California public policy underlying § 2855. The court, however, was not persuaded and held that the forum selection clause of the 1973 agreement should be enforced. The 1976 contract specified New York law but did not contain a forum selection clause. The court rejected Manchester's claim that the 1976 agreement was an extension of the 1973 contract and thus also invalid because of the prohibition of waiver of employees' rights under § 2855. "This argument," Judge Kelleher said, "would effectively prevent an employee from entering into a new contract with his or her current employer until after the completion of all obligations between them. The better course is to consider the circumstances surrounding the formation of the new contract in each situation. If the new contracts was entered into at or near the time of formation of the earlier contract, and if the two contracts appear to have been entered into to avoid the application of § 2855 to a single agreement, then they should be considered a single contract for the purposes of § 2855. However, if the latter contract was entered into toward the end of the first contract, it should be treated as a separate agreement for purposes of § 2855." Each contract should be reviewed on a case by case basis, not under formalistic contract law principles but "in light of the policy consideration underlying § 2855 to protect employees." The only tie between the two contracts was that "the 1976 agreement is an option contract that Arista could exercise only if it had exercised all of its options under the 1973 contract." The second contract "was not entered into with the purpose of evading the seven-year employment limitation of § 2855."

5. In *Adams v. Irving Music, Inc.*, Case No. BC 090519, Superior Court, Los Angeles County, (unreported) Bryan Adams was granted summary judgment (effective as of 1991) in a case in which the term of Adams' songwriter agreement with Irving (which commenced in 1984) was contractually co-terminous with the term of Adams' recording agreement with Irving's then-affiliate, A&M Records, Inc. The recording agreement had been re-negotiated, and its term had been extended which, Irving claimed, also served to extend the term of the songwriter agreement until 1993.

6. There have been no reported California cases involving the seven-year statute in over a decade. Several highly publicized actions were initiated in the 1990s that would have tested the limits of the seven-year statute in light of the critical and yet-unresolved issue of midterm modification/extensions but all were settled. In *Geffen Records, Inc. v. Henley* (No. BC073696 (Superior Court, Los Angeles County) Don Henley, who had attained enormous success both as a member of the Eagles and as a solo artist on Geffen Records sought in 1992 to invoke the statute to terminate of his 1984 solo agreement (which had been modified in 1988). In *We're Only In It For the Music v. Elektra Entertainment* (No. 9644007 Superior Court, San Francisco County), the group Metallica challenged the enforceability of their 1984 agreement under § 2855 even though the recording agreement had a New York law and forum clause. We can only speculate as the the judicial outcome of these cases as both of them were dismissed as part of out-of-court settlements.

7. For additional analysis of problems arising under California's seven-year statute, see Bushkin and Meyer, "The Enforcement of Mid-Term Extensions of Employment Agreements Under California Labor Code Sec. 2855," 15 *Beverly Hills Bar Journal* 385 (1980) and "Employee Emancipation in California: The Seven Year Itch Under Labor Code Section 2855," 56 *Cal St B.J.* (1981); Blaufarb, "The Seven Year Itch: California Labor Code Section 2855," 6 *Comm/Entertainment L.J.* 653 (1984).

8. See, also, Greenberg, "Seven Years to Like: The Flight for Free Agency in the Record Business" 12 *Entertainment and Sports Lawyer* 1 (1994).

Ketcham v. Hall Syndicate, Inc., 236 N.Y.S.2d 206 (Sup. Ct. N.Y. County 1962), *aff'd*, 242 N.Y.S.2d 182 (1963)

SPECTOR, JUSTICE

On January 24, 1951 the plaintiff (the creator of the cartoon panel entitled "Dennis The Menace") and the defendant, then known as the Post-Hall Syndicate, Inc., entered into an agreement for the syndication by Hall of the cartoon panels.

The contract provided that the panels were to be delivered to Hall's office in the City of New York at least six weeks prior to the scheduled date of release.

The agreement further provided that its duration should be for the period of one year with automatic renewals from year to year without notice unless the plaintiff's share from syndication did not equal certain minimum stipulated weekly payments, in which event either party had the right to terminate it.

There is no claim that the minimum returns have not been met. In fact, the evidence is quite to the contrary, and it is uncontradicted that the payments are now over five times the required minimum.

The parties performed under the contract from the date thereof until December 18, 1961 when the plaintiff wrote a letter to the defendant in which he purported to cancel and terminate the contract as of March 11, 1962. However, the plaintiff is still performing under the contract by reason of the provision in the aforesaid letter of December 18, 1961, that if the cancellation were not recognized then the plaintiff would continue to perform until such right of cancellation and termination should be established by litigation.

In answer to the plaintiff's letter, on March 8, 1962, the defendant advised the plaintiff that by reason of the payment of the minimum provided by the terms of the contract that it would deem the contract renewed for the further period of one year and that it would also deem it renewed from year to year thereafter provided the stipulated payments had been made.

The plaintiff's complaint seeks a declaratory judgment determining whether the plaintiff has the legal right to terminate the contract on the grounds (a) that it is for an indefinite term and that there is no mutuality; (b) that section 2855 of the Labor Code of the State of California provides that such a contract may not be enforced beyond seven years from the commencement of the services; and (c) that if the contract is governed by the laws of the State of California it may be cancelled and terminated since it is no longer enforceable under the aforesaid section of the Labor Code.

The questions of law are clearly defined and are (1) is the contract governed by the laws of the State of New York or the State of California; (2) if the contract is governed by the laws of California, is it terminable by reason of section 2855 of the Labor Code; and (3) is the contract, which calls for automatic renewals upon the payment of certain minimums, voidable either by reason of indefiniteness or lack of mutuality. . . .

There is no decision of the California courts which has determined whether a contract such as the one in question is governed by the above-quoted statute. Defendant contends that the contract in question established a relationship not of employer-employee but one of the status of an independent contractor and that therefore the section relied on does not apply.

Section 2750 of Article 1 of Chapter 2 of said Code defines a contract of employment as one "by which one, who is called the employer, engages another, who is called the employee, to do something for the benefit of the employer or a third person."

Edwin S. Pillsbury, Esq., plaintiff's expert on California law, testified on cross-examination that the contract in question "does not establish, in my opinion, the relationship of employer and employee in the strict sense"; and further testified that this contract would fall within the category of "an independent contractor relationship," and that Mr. Ketcham was an independent contractor by reason of the fact that there was no "right of supervision, direction and control."

Mr. Pillsbury, however, testified that section 2855 of the California Labor Code applied to independent contractors. That the second sentence of section 2855 relating to contracts to “render service of a special, unique, unusual, extraordinary, or intellectual character, which gives it peculiar value” had reference to independent contractors and that Mr. Ketcham’s contract was of this type. However, he never stated the basis for his opinion, except that there was a strong public policy (in California) “to the effect that an employee should be protected by law against improvidently contracting his services away for a longer period than seven years.”

Reliance is also placed by plaintiff on *De Haviland v. Warner Bros. Pictures*, 67 Cal.App. 2d 225, 153 P.2d 983. However, in that case the acting was performed by the employee at the direction of her employer at places designated by her employer. In this case, however, plaintiff’s performance was delivery by him at the defendant’s New York office of six daily cartoon panels per week. There was no supervision, plaintiff worked where he pleased. The provision regarding the quality of the panels is usual in certain types of sales or building contracts and does not imply supervision.

Sidney Justin, Esq. defendant’s expert witness on California law, testified that he was “very intensively” acquainted with the provisions of section 2855 by reason of his employment in the legal department of Paramount Pictures Corp. because the section involved all of the employment contracts of the studio. He testified that the contract was one “to furnish materials” and similar to contracts between motion picture producers and distributors, whereas the contract in the *De Haviland* case, *supra*, was “a typical employment contract.” He testified that the sole purpose of section 2855 “was to protect employees” and that there were no provisions of the Labor Code which he could find which govern independent contractors. He testified that although the word “employee” was not used in the second sentence of section 2855 (relating to unique services) it must be read into it. Since the third sentence commences: “If the employee voluntarily continues his service under it . . . ,” the conclusion is inescapable that the word employee must be read into the second sentence.

Furthermore, it should be noted that the first sentence of section 2855 refers to “employee.” “Employee” is defined by the same Labor Code in section 350(b) as follows:

(b) “Employee” means every person including aliens and minors, rendering actual service in any business for an employer, whether gratuitously or for wages or pay and whether such wages or pay are measured by the standard of time, piece, task, commission, or other method of calculation and whether such service is rendered on a commission, concessionaire, or other basis.

It should also be noted that the defendant is not an “employer” as defined by section 350(a) of the Labor Code as follows:

(a) “Employer” means every person engaged in any business or enterprise in this State, which has one or more persons in service under any appointment, contract of hire, or apprenticeship, express or implied, oral or written, irrespective of whether such person is the owner of the business or is operating on a concessionaire or other basis.

The above definitions add additional weight to the conclusion of the defendant's expert, whose opinion seems more compelling. The court adopts his interpretation of the statute that the sentence is only intended to include employees and would exclude independent contractors.

It is obvious that under the usual rules of statutory interpretation the provisions of section 2855 would apply only to the normal employer-employee relationship and not to situations where one of the parties was an independent contractor.

Since the second sentence was not interpreted by the California courts, I believe that we can accept our own definition of an independent contractor as laid down by our Court of Appeals in *Hexamer v. Webb*, 101 N.Y. 377, 385, 4 N.E. 755, 757:

The test to determine whether one who renders service to another does so as a contractor or not is to ascertain whether he renders the service in the course of an independent occupation, representing the will of his employer only as to the result of his work, and not as to the means by which it is accomplished. Shearm. & Redf., Neg. 76. In *Blake v. Ferris*, 5 N.Y. [48] 58, within the rule last stated, it is held that when a man is employed in doing a job or piece of work with his own means, and his own men, and employs others to help him or to execute the work for him, and under his control, he is the superior who is responsible for their conduct, no matter for whom he is doing the work. To attempt to make the primary principal or employer responsible in such cases would be an attempt to push the doctrine of *respondet superior* beyond the reason on which it is founded. . . .

The evidence also establishes that the parties by their own conduct never considered the relationship to be that of employer-employee. There was never a withholding by the defendant for income taxes or social security; the plaintiff paid all the expenses of producing the cartoons; and the plaintiff in filing his Federal income tax return paid the "self-employment tax" which was measured by the income received from the defendant.

The contract provides that: "Should Ketcham become incapacitated or unable to deliver the material . . . or in the event of the decease of Ketcham, he or his executors shall have the privilege of employing substitute services to prepare the materials" or that the defendant "shall have the privilege of securing substitute services."

In either event Ketcham (or his estate) was still to receive the benefits of the contract (less the cost of the substitute).

Ketcham was not an employee and the contract is at best one for his services as an independent contractor. Indeed in most of its aspects it is more a contract of sale or a contract to supply a product rather than services.

There is yet another reason for holding the California Statute inapplicable. The New York Conflict of Laws rules require a finding that the contract is governed by New York Law, under the theory of "center of gravity" or the "grouping of contacts." Defendant's office is and was in New York, all of its operations (other than traveling salesmen) are conducted in New York, including the mat makers, the editorial work, financial work, photo-engravers, etc. Performance of the contract by plaintiff was to be by delivery of the panels at defendant's New York office. The contract was signed in New York by defendant and by "Kennedy Associates, Inc. by John J. Kennedy as agents for Hank Ketcham." The verified

complaint sets forth that Kennedy Associates, Inc. “executed the contract as agent for the plaintiff.” Plaintiff prepared the panels at various residences during the years following the execution thereof. Indeed the place where plaintiff or his substitute was to prepare the panels was of absolutely no significance. The most important contact was the place of delivery, the fixed place where all of defendant’s work had to be performed. New York was the place of most significant contact when the contract was signed, was so during the intervening years and is today, and therefore New York law governs. . . .

The first, second and third affirmative defenses have been proven and therefore the California statute will not be applied.

Since we have decided that the California law is inapplicable, the remaining questions to be determined are whether the contract is indefinite and does it lack mutuality.

The issue of mutuality poses no problem. Plaintiff’s argument that the contract lacks mutuality of obligation is adequately answered by a comparison of the facts in this case and those in *Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 118 N.E. 214. In this case, the defendant was expressly obligated to produce certain minimum payments to keep the contract in force, whereas in the *Wood* case, *supra*, the court merely implied an obligation on plaintiff’s part to use its best efforts. There is thus certainly more basis for finding mutuality than existed in *Wood*, where the Court of Appeals found mutuality.

Whether or not the contract is indefinite presents a more difficult question and is probably the most important problem to be resolved in this case. The question, however, is not whether the contract is for an *indefinite term*, it is whether the contract, by its terms, is *indefinite as to its duration*. If it is, then judicial construction is necessary and thus plaintiff should prevail because it is well settled in New York, that a contract will not be construed to require perpetual performance where another construction is available. . . . Absent a fixed or *determinable duration* or an express provision that the duration is perpetual, the contract is one terminable at will. . . .

The contract in the case at bar is not indefinite as to duration. Paragraphs 4, 5 and 6 provide specifically for termination by either party upon the happening of certain events. The contract provides that it “shall be for a period of one year . . . and shall renew itself automatically from year to year for additional periods of one year each without the giving of notice by either party to the other, except that each of the parties shall have the right to terminate this agreement at the end of any one year period hereof . . . in the event” that plaintiff’s share fell below the stipulated amount and the defendant at its sole discretion, to avoid a termination of this agreement, failed to advance the difference in the minimum stipulated amount.

The plaintiff asserts that these provisions render the contract indefinite because they include no specific date for the termination of the contract. This, however, is not the kind of indefiniteness which renders the contract voidable, since specific provision is made for termination. It is this specificity which destroys the plaintiff’s case. The contract is for one year and renewable from year to year, but this, from the terms of the contract itself, appears to have been the intention of the parties. The paragraphs regarding termination clearly provide for automatic renewal and just as clearly give the defendant the right to keep the contract alive in the event certain requirements for automatic renewal are met. It was the intention of the parties that the contract should run so long as the

minimum receipts were realized and that during such period that neither party should be able to desert the other. The strip started as an idea and both parties were to be integral parts of its development, the plaintiff by his creative ability and the defendant by his promotion and salesmanship. The terms of the contract are clear and unambiguous and freely signed by the plaintiff and his agent.

That contracts providing for perpetual performance are not invalid is undoubtedly the law of New York, although no precise holding on this point can be found among the New York cases . . .

For contracts which had no calendar fixed date of termination but were held as contracts for a definite term, see *Matter of Exercycle v. Maratta*, 11 A.D.2d 677, 201 N.Y.S.2d 885, *affd.* 9 N.Y.2d 329, 214 N.Y.S.2d 353; *Ehrenworth v. George F. Stuhmer & Co.*, 229 N.Y. 210, 214, 215, 128 N.E. 108, 109; *Deucht v. Storper*, City Ct., 44 N.Y.S.2d 350, 351. In *Exercycle*, the contract provided for continuation until the employee voluntarily leaves the employ of Exercycle. In *Ehrenworth*, the contract was for “as long as the plaintiff . . . remained in business.” In *Deucht*, the employment was to be for so long a time as defendant “continued to employ workers, trained, developed and gathered by plaintiff.” (See *Warner-Lambert Pharmaceutical Company Inc. v. John J. Reynolds, Inc.* [S.D., New York, 1959] 178 F. Supp. 655, 661.) . . .

The defendant, therefore, must prevail. Contracts which are vague as to their duration generally will not be construed to provide for perpetual performance, but where, such as the case here, the contract is not vague, no judicial construction is necessary. . . .

NOTES

1. Of course, where substantive terms *are* expressed vaguely, enforcement will be denied. The circumstances under which a court rules a contract’s terms fatally indefinite are increasingly rare. A more likely result is for the court to use interpretative aids to resolve the ambiguities and save the contract. These include (1) the express language of the contract as understood in a legal context; (2) the extent to which the parties performed under the agreement and the understandings under which they performed, both stated and implied; (3) the parties’ dealings in past transactions; and (4) custom and usage in the specific entertainment industry involved. The prevailing judicial view is that if the parties can reduce their understandings to writing, ambiguities will be resolved if at all possible. A deal should not be voided if its terms can be saved by interpretation. However, enforcement was denied in *Candid Productions v. International Skating Union*, 530 F. Supp. 1330 (S.D.N.Y. 1982). Candid, a producer of televised sporting events (mostly skating), sought specific enforcement of a contract which (Candid claimed) gave it exclusive television rights to the World Championships. Candid had dealt with the ISU for sixteen years. Earlier contracts between the parties had provided that they would “negotiate in good faith the terms and conditions by which [Candid’s] rights [would] be extended,” and if the parties did not agree, ISU would “then be free to offer these rights to a third party under the same terms and conditions last offered to Candid.” However, if ISU was willing to accept less favorable terms and conditions, it would give Candid the opportunity to secure the deal on those terms and conditions before ISU offered the deal to third parties. However, ISU refused to sign the contract which became the subject of the action unless the first refusal clause was deleted. In its place, the parties substituted a provision that ISU would not negotiate any further contracts for the rights for the World Championships after 1979 without first negotiating in good faith with Candid. However, ISU apparently began negotiations with CBS before commencing negotiations with Candid, and ultimately granted CBS the exclusive right to broadcast the World Championships. Candid claimed

that ISU had breached its agreement to negotiate with plaintiff in good faith. In its motion for summary judgment, ISU did not contest this claim; it didn't matter, they argued: the good faith negotiation clauses upon which Candid relied were so vague and uncertain as to be unenforceable. The court agreed. Candid argued that the court should imply, "as a requirement of good faith negotiation a duty by ISU: (1) to disclose information material to Candid's ability to formulate offers; (2) to make offers and counter-offers; and (3) to continue negotiations for a sufficient minimum period of time before signing with another to permit Candid a fair opportunity to overcome in all respects the comparative attractiveness of competitive proposals. To imply such terms, however, would be to impermissively make a contract for the parties rather than to enforce any bargain the parties themselves may have reached. . . . [I]t is particularly inappropriate to imply the terms proposed by Candid for in effect Candid is asking the Court to reinsert into the contract the specific obligation that ISU expressly rejected by its demand, agreed to by the plaintiff, that the first refusal clause containing such requirement be deleted from the contract." The court also rejected Candid's alternative negative-injunction argument that the good-faith-negotiation clause contained "an express negative covenant that mandates that ISU [would] not negotiate with others before it [had] negotiated in good faith with Candid." However, the court said, "[w]hether ISU was bound to negotiate exclusively with Candid before negotiating with anyone else, as the alleged negative covenant would require, does not relieve or assist this Court in its burden to find some standards by which to judge the parties' performance. Indeed, such negative covenant only worsens the situation for the negotiation clauses are silent as to the length of time such exclusive negotiation period is to run." The principle that "a mere agreement to agree" is unenforceable for indefiniteness where material terms are left open for future resolution [applies] here with added force for not only one item but all terms have been left open for future negotiation. . . . To issue a decree of specific performance, as plaintiff requests, would require the Court to enter into the realm of the conjectural. An agreement to negotiate in good faith is even more vague than an agreement to agree. An agreement to negotiate in good faith is amorphous and nebulous, since it implicates so many factors that are themselves indefinite and uncertain that the intent of the parties can only be fathomed by conjecture and surmise."

2. For further discussion of obligations of good faith and fair dealings, see MacNeil, "Power of Contract and Agreed Remedies," 47 *Cornell Law Quarterly* 495 (1962); Burton, "Breach of Contract and the Common Law Duty to Perform in Good Faith," 94 *Harvard Law Review* 369 (1980); Comment, "Has the Right of First Refusal Been Thrown to the Wolves?" *American Broadcasting Co. v. Wolf*, 1 *Cardozo Arts and Entertainment Law Review* 137 (1982).

3. In *Sellers v. American Broadcasting Co.*, 668 F.2d 1207 (11th Cir. 1982), the Court of Appeals dismissed an action in which the plaintiff attempted to enforce an "exclusive story" agreement he had made with Geraldo Rivera of ABC on contract and misappropriation grounds. The exclusive story involved information that Elvis Presley had died from an overdose of drugs, a theory which the court found neither novel, unique, nor original so as to afford the plaintiff protection under the misappropriation doctrine. Furthermore, the "contract" of the plaintiff was unenforceable as it was too vague and indefinite as to the information which Sellers was to provide regarding Elvis's death.

The plaintiff's entire contract read as follows:

I, Larry L. Sellers, do hereby agree not to release this exclusive story to any reporter other than Geraldo Rivera or any network other than ABC until the network has first released said story within a reasonable period of time or thirty days. Once the story has been released, other media firms may be contracted by Larry Sellers.

I, Geraldo Rivera, do hereby agree to grant Larry Sellers all copy-write [sic] privileges of the exclusive Elvis Presley story and full claim for the discovery of the story by acknowledgement in any media use made of it from this day forth.

If the story is accepted for further investigation, all expenses incurred by Larry Sellers will be reimbursed by ABC.

Should the story be proven false, this contract is hereby null and void.

4. See also *De Laurentiis v. Cinematografica de Las Americas*, 215 N.Y.S.2d 60, 9 N.Y.2d 503 (1961).

2.3.2 Statutory Termination Rights in California

Circumstances change, and the initial intentions of parties to a transaction shift as well. When one party to a contract believes another party is not fulfilling the bargain, the simmering dispute begins a perceptible movement toward the courts. The pages of such publications as *Variety*, *The Hollywood Reporter*, and *Billboard* constantly chronicle the filing of breach of contract lawsuits. Stars walk out. Producers renege. Directors revolt.

While most suits are settled, some go the legal distance. These provide guidelines to advise others what to expect if their later disputes find a legal forum. As the following cases suggest, settling a dispute may be a good deal less painful than vindicating one's rights in court. However, if a legal fight it will be, it is best to have had competent contract drafting in the first place. That is the starting point. If that fails, then some of the limitations under which courts operate must be confronted.

This section on the circumstances of breach is a natural lead-in to the following sections that examine the remedies each side can realistically seek when the other party is in breach. Since breach and remedies for breach go hand in hand, this section examines remedies as well.

Every breach does not give rise to a right to terminate or rescind the agreement. In addition, many agreements include a "right to cure" provision that will require the party alleging a breach to notify the other party of the alleged breach, and only if the breach is not "cured" within the stated period of time will there be deemed to have been a breach of the contract. In California, the traditional "hornbook" contract law principle that a "material breach" is required in order for the non-breaching party to rescind the contract is superseded (as it applies to personal service contracts) by California Labor Code §2925. We begin our discussion with California Labor Code §2924, which permits an employer to discharge an employee, and with the decision in the Goudal case, interpreting that section.

Section 2924. *Employment for a specific term; grounds for termination by employer; . . .*

An employment for a specific term may be terminated at any time by the employer in case of any willful breach of duty by the employee in the course of his employment, or in case of his habitual neglect of his duty or continued incapacity to perform it. . . .

Goudal v. Cecil B. De Mille Pictures Corp., 5 P.2d 432 (Cal.App.Ct. 1931)

FRICKE, JUSTICE PRO TEM

This is an appeal from a judgment for plaintiff in the sum of \$34,531.23 in an action to recover damages for breach of a contract of employment entered into in April, 1925. Under this agreement respondent was employed by appellant as a motion picture actress for one year beginning May 19, 1925, with the option to appellant of four yearly extensions of the contract, each yearly extension to be at a specified substantial increase in compensation. Respondent entered upon her duties, and appellant twice exercised its option, extending the period of

employment to May 18, 1928. On September 10, 1927, respondent was discharged by appellant. The basic question in this case is whether such termination of the employment of respondent was wrongful or whether it was justified by acts of the respondent violative of the terms of the contract. The trial court found that respondent had not violated the contract, and that her discharge was not justified.

Many of the alleged violations of the employment contract set forth in appellant's brief are either not supported by the references to the transcript due either to counsel drawing inferences not justified by the testimony or to the fact that the references are to the testimony of Cecil De Mille as to what he told respondent had been reported to him, testimony which, while perhaps admissible on another theory, is pure hearsay so far as its being proof of the conduct of respondent is concerned. As an example of the misinterpretation of the evidence may be cited appellant's statement that "Mr. Howard testified that in two specific instances she refused to follow the directions of the director." When we examine the reference to the transcript, we find the testimony of Mr. Howard to be that in one scene Miss Goudal appeared disturbed, and did not perform the scene as he thought her capable of performing it, and that, in another instance, "She played the scene in a manner well enough for me to accept it and put it in my picture as a part of the picture but not in a manner I think fully as good as she was capable of playing it." Even the viewing of the testimony through the rose-colored glasses of the advocate can hardly justify counsels' statement that this was a refusal to perform a part of the contract.

The claim that respondent failed or refused to perform her parts as requested is based upon many incidents set forth in detail in the record. They relate to occasions when the respondent, instead of unquestioningly performing as directed by the director in charge, called attention to inconsistencies, inaccuracies, possible improvements, or lack of artistic quality in the performance called for as they appeared to her. In some instances this resulted in the suggested change being made by the director without argument; in other cases the change was made after some argument between them. In most instances where the director did not make the suggested change it appears that respondent took the question up with the president of the appellant corporation, and in a substantial number of instances he agreed with her and the changes were made. In other instances he did not agree. This presents the question, Was respondent compelled by the contract to go through her scenes as a mere puppet responding to the director's pull of the strings, regardless of whether or not he pulled the right or the wrong string, or was she called upon by the language and spirit of the contract to give an artistic interpretation of her scenes, using her intelligence, experience, artistry, and personality to the ultimate end of securing a production of dramatic merit? We believe that the latter is the correct interpretation. Suggestions and even objections as to the manner of enacting the various scenes, when made in good faith, were in the interest of the employer; in fact, it appears from the testimony that they were welcomed and encouraged in many instances, and, prior to commencing work, the president of appellant informed respondent that he did not want mannikins to work for him, that he wanted thinking people, and that, if she would explain to him why she wanted to do a thing in a particular way, he would appreciate it. By the very wording of the contract "it is agreed that the services of the artist herein provided for are of a special, unique, unusual, extraordinary and intellectual character." Even without the evidence contradicting that of ap-

pellant, the trial court was more than justified in finding that it was not true that respondent had refused or failed to perform her part of the contract.

Some of the incidents, stressed by appellant as instances of a failure of respondent to perform her contract, turn out, when reference is had to the transcript, to be dependent upon the opinion of the director as to whether respondent performed to the best of her ability; others were dependent upon the feeling of the particular director as to whether he was or was not satisfied. The declarations of several of the directors as to their dissatisfaction with the work of respondent is rather inconsistent with the testimony elsewhere of one of them that the picture "White Gold," in which respondent performed under his direction, was "the best picture I ever will make," and the testimony of the director of her last picture, that he considered it one of his best American pictures. When considering the testimony of the directors who expressed dissatisfaction with the performance of her parts by respondent, one may well wonder who was temperamental and out of step when we note in connection therewith that in the picture in which Cecil De Mille directed Miss Goudal there was no trouble whatever. There is, furthermore, a conflict in the evidence as to whether the performance given by respondent was to the best of her ability and of an artistic character. In this conflict the trial court was fully sustained in its findings against appellant.

The remaining ground urged as justifying her discharge is that respondent on certain occasions was late in arriving on the sets at the time designated by her employer. The instances cited were explained by the testimony for respondent as being due, not to any neglect or intentional absence, but to duties relating to costumes which had been voluntarily assumed by respondent with the approval of appellant, though not required by the contract, delays in appearing on the set due to the necessary consumption of time in the donning of a special wig, and, in the last picture, the only one made after the exercise of the last option by appellant to re-employ respondent for another year, delays due to the large number of costumes used, in one instance, a failure of her maid who forgot an article of clothing, and the delay of appellant in delivering to respondent the script, which determined the costumes required. It should also be noted that as to this last picture the director in charge, when respondent expressed regret at being late, stated to her that he understood, and that never before had he had as little trouble as he had with her. The case of *May v. New York Motion Picture Corporation*, 45 Cal. App. 896, 187 P. 785, so strongly relied upon by appellant, is easily distinguishable from the case at bar. The fact that the maximum salary under the contract of the plaintiff there was \$125 per week as compared to the maximum salary of respondent of \$5,000 per week sufficiently discloses the comparative skill of the respective artists. In that case also the plaintiff repeatedly was from one and a half to two hours late in arriving at the place of employment, on at least one occasion failed to appear after she had been notified by telephone, and on the three days preceding her discharge failed to appear for work at all, her reason for not appearing on those days being that her contract did not require her presence, a reason not sustained by the court's interpretation of the contract. The May Case involved the willful disobedience of a reasonable order incident to the employment justifying the plaintiff's discharge. There is in the case at bar no willful tardiness nor invalid excuse for absences, the instances of tardiness here being covered by the general description that those delays were occasioned by the requirements of the scenes to be enacted on those particular days, delays while respondent was actually engaged in performing her employer's business.

It may also be noted that the references to alleged breaches of the contract consist largely of incidents prior to May, 1927, when appellant, for the second time, had exercised its option to continue and extend the contract for another year, and by which time respondent had completed seven of the eight pictures in which she performed for appellant. It is rather difficult to reconcile as sincere the appellant's criticism and faultfinding as to respondent's services in the pictures made during the two years prior to May, 1927, with the fact that in that month appellant voluntarily availed itself of its option to secure the talents and services of respondent for another year. Particularly is this significant when we consider that the salary under the latter option would amount to \$39,000 more than respondent's salary for the preceding year. This circumstance alone would fully justify the trial court in considering as of little or no weight the testimony as to alleged breaches of contract prior to May, 1927. The exercise of the option not only evinced a desire on the part of appellant to retain respondent's services, but expressed an approval of the manner in which she had performed her services in the past, and was an indication that a continuation of the former services was desired. Having thus placed the stamp of approval upon respondent's conduct and services as rendered prior to May, 1927, it is not reasonable that a continuance of such services and conduct was unsatisfactory, and, from appellant's viewpoint, constituted a breach of the contract warranting respondent's discharge. Furthermore, the exercise of the option may be considered as a declaration by act that the past conduct of the artist was not such conduct as was intended by the contracting parties as a justification for the termination of the contractual relations. This would be particularly true where, as here, the duties of the performing party are described in the contract by such general phraseology as that the artist shall render the services "conscientiously" and "artistically." It might well be said that an artist who performed her part as directed without remonstrance or suggestion, in spite of the fact that the action was inartistic, crude, and illogical, would not be rendering services either conscientious or artistic in character, while the artist who made an effort to secure a change in the action to produce an artistic result would be complying with the letter and spirit of the contract. These matters and the intent and good faith of the respondent were matters of fact to be passed upon by the trial court, and, since their decision adversely to appellant is sustained by the evidence, the findings of the trial court are not subject to review here.

To constitute a refusal or failure to perform the conditions of a contract of employment such as we have here, there must be, on the part of the actress, a willful act or willful misconduct (*May v. New York Motion Picture Corp.*, 45 Cal. App. 396, 187 P. 785; *Ehlers v. Langley & Michaels Co.*, 72 Cal. App. 214, 221, 237 P. 55), a condition which is absent when the actress uses her best efforts to give an artistic performance and to serve the interests of her employer. The trial court was fully warranted by the evidence in finding that respondent neither failed nor refused to perform the services required of her under the contract.

Even in the most menial forms of employment there will exist circumstances justifying the servant in questioning the order of the master. Would the discharge of a ditch digger be justified if, instead of immediately driving his pick into the ground at the point indicated, he in good faith suggested to the employer that the pipes they were to uncover lay on the other side of the highway? And when the employment is of the services of "a special, unique, unusual, extraordinary and intellectual character," as is agreed by the contract here under consideration,

to be rendered “conscientiously, artistically and to the utmost of her ability,” sincere efforts of the artist to secure an artistic interpretation of play, even though they may involve the suggestion of changes and the presentation of argument in favor of such changes, even though insistently presented, do not amount to willful disobedience or failure to perform services under the contract, but rather a compliance with the contract which basically calls for services in the best interests of the employer. What may in the case of the extra girl be rank insubordination because of a refusal to do exactly what she is ordered to do by a director may be even praiseworthy co-operation in the interests of the employer when the refusal is that of an artist of the exceptional ability expressly stipulated in the contract here before us.

Appellant’s final point is that respondent is precluded from recovery because, after her discharge, she failed to seek other employment. The testimony of respondent is that, after her discharge, she held herself in readiness to perform her part of the contract, and did not try to secure employment elsewhere. We are referred to no evidence, and appellant’s brief concedes that there is none, that respondent could, with reasonable diligence, have secured other suitable employment during the remaining period of the agreement other than, as found by the trial court, that, after the 1st day of January, following her discharge, it should have become evident to her that appellant would not accept her services and that the circumstances showed that she did not diligently seek other employment which she could have obtained. Under this finding the trial court limited the recovery to the period ending January 1, 1928, and, pursuant to a stipulation, deducted therefrom the sum of \$3,000 received by respondent from other employment.

“The measure of recovery by a wrongfully discharged employee is generally and primarily . . . the agreed wage for the unexpired part of the term; and the burden is upon the employer to rebut this presumption by proof that the damages sustained were actually less.” *Gregg v. McDonald*, 73 Cal. App. 748, 757, 239 P. 373, 376. “The measure of damages in such cases is the amount of the salary agreed upon for the entire period of service, less the amount which the servant has earned or with reasonable effort might have earned from other employment.” *Boardman Co. v. Petch*, 186 Cal. 470, 484, 199 P. 1047, 1051; *Seymour v. Oelrichs*, 156 Cal. 782, 801, 106 P. 88, 97, 134 Am. St. Rep. 154. The case last cited calls attention to the fact that, where the action is brought before the expiration of the period of employment provided by the contract, the action is not to recover wages due, but for damages for breach of contract, and that: “The measure of damages is, therefore, prima facie, the contract price.” The burden was on the defendant to show, not only that respondent remained unemployed, but also that she could by diligence have secured suitable employment elsewhere. *Rosenberger v. Pacific Coast Ry. Co.*, 111 Cal. 313, 318, 43 P. 963. Conceding that the proof would warrant the inference that respondent did not seek other employment, such proof would not establish that respondent could have secured other employment. Appellant failed to sustain the burden placed upon it by the law, and there is no proof which would warrant a reduction in the amount of damages awarded by the judgment. . . .

The judgment is affirmed.

NOTES

1. The company in the Goudal case could have minimized its contractual liability by including in the employment agreement a so-called pay or play clause, which would have

given the company the right to discharge her by paying some liquidated sum. An example of such a clause may be seen in *Parker v. Twentieth Century-Fox Film Corporation* (Section 5.3.1).

2. See *Mason v. Lyl Productions*, 69 Cal.2d 79, 443 P.2d (1968) (producer not entitled to discharge actress from television series for failure to comply with unreasonable order).

3. See also *Loew's Inc. v. Cole*, 185 F.2d 641 (9th Cir. 1950), *cert. denied*, 340 U.S. 954 (1951), in which the court held that while MGM had the right to fire writer Lester Cole, one of the defiant "Hollywood Ten" who refused to cooperate with the House Un-American Activities Committee investigation into alleged Communist influences in the film industry, MGM did not have the right to suspend the term of Coles' agreement at the same time.

Section 2925. *Employment for specified term; grounds for termination by employee.*

An employment for a specific term may be terminated by the employee at any time in case of any willful or permanent breach of the obligations of his employer to him as an employee.

**Warner Brothers Pictures, Inc. v. Bumgarner, 17 Cal.Rptr. 171
(Cal.App.Ct. 1961)**

FOURT, JUSTICE

This is an action by Warner Bros. Pictures, Inc., hereinafter referred to as "Warner," for a declaration determining the status of a contract between Warner, as the employer, and James Bumgarner, also known as James Garner, hereinafter referred to as "Garner," as the employee. Garner cross-complained for damages for breach of the contract. The judgment declared the contract terminated as of March 10, 1960, and allowed Garner as damages the sum of \$1,750.00. Both parties have appealed. Warner appeals "... from the judgment . . . and from the whole thereof." Garner appeals "... from that part of the judgment . . . to wit, Subdivision 3 providing that plaintiff and cross-defendant pay to defendant the sum of \$1,750.00, with interest thereon at the rate of 7% per annum from March 10, 1960 up to the date of the judgment. Defendant and cross-complainant does not appeal from the rest of the judgment as set forth in Subdivisions 1, 2 and 4 thereof."

A résumé of some of the facts is as follows:

Warner is a producer of motion pictures of different types for showing in theatres or on television. Garner is an actor who had been employed by Warner since 1955 under successive contracts, the latest of which, and the one with which we are here concerned, was made February 27, 1959, hereinafter referred to as "Garner Contract." The Garner Contract, among other things, contained a so-called *force majeure* clause.

Effective mid-January, 1960, the Writers Guild of America, West, Inc. declared a strike against Warner and many other producers. The writers' guild is an organization or union composed of the writers of scripts or screen plays for both theatrical and television motion pictures. The strike continued from January until June 20, 1960.

The present controversy arose when Warner, on March 2, 1960, regarded the situation as of that time as a casualty within the *force majeure* clause and notified Garner that as of March 3, 1960, his compensation would be discontinued by reason thereof.

The chronology of significant dates is as follows:

January 16, 1960—Television and feature writers struck against many feature and television producers, including Warner.

March 2, 1960—Warner elected to suspend payment of compensation to Garner alleging existence of a “casualty period” under the employment contract.

March 8, 1960—Garner objected to suspension claiming that no casualty period existed and demanded payment of salary.

March 9, 1960—Warner refused to pay salary after Garner’s demand.

March 10, 1960—Garner informed Warner that Warner was in breach of contract and that he elected to treat employment contract as terminated.

June 20, 1960—Writers’ guild strike ended.

When the writers’ strike commenced Warner was producing ten television programs or series. A series consisted of successive episodes involving the same main characters and exhibited on television at weekly or other regular intervals. One of such series was known as “Maverick,” with Garner as one of the main characters therein.

Each television episode was a motion picture filmed from a script. A script is in the form of a play with dialogue, and of the correct length to make the required episode. Scripts are written from stories, the latter being basic literary material. A script is the working tool. Scripts are the product of screen writers, and practically all of such script writers are members of the screen writers’ guild. Stories are furnished to such writers by the producing company and form the basis of the required script. . . .

The preparation of motion pictures by plaintiff was not prevented, materially hampered or interrupted by reason of the writers’ strike; the production of motion pictures by plaintiff was not prevented, materially hampered or interrupted by reason of the writers’ strike; and the completion of motion pictures by plaintiff was not prevented, materially hampered or interrupted by reason of the writers’ strike.

A large amount of statistical data was introduced to show the effect of the writers’ strike on the preparation, production, and completion of theatrical and television motion pictures. The evidence shows and Warner concedes that “. . . there was at all times during the strike, both before and after March 3rd, some activity at the Studio, and some preparation, production or completion of motion pictures were at all times going on in some way and to some extent and with respect to some pictures or series.” The evidence supports the finding. . . .

As already pointed out, the provisions of paragraph 15 of the contract are in the disjunctive and contain several alternatives. The first alternative relating to Warner’s general activity has heretofore been discussed. Another alternative contained in paragraph 15 is that “. . . if the production of any motion picture or other production to which Artist is assigned hereunder shall be suspended, interrupted or postponed by any such cause, . . . (the continuance of any such event being hereinafter designated as the ‘casualty period’), then, during the continuance of such casualty period, Producer shall not be obligated to make any weekly payments to Artist. . . .”

The trial judge in his “Memorandum Decision” made it clear that he construed the above alternative provision of paragraph 15 as not being applicable to Maverick (i.e. any Warner’s production). The memorandum provides in pertinent part as follows:

The court will find that the provision “or if the production to which Artist is assigned hereunder shall be suspended, interrupted or postponed by any such cause” means the lending or assignment of the services of Artist pursuant to Paragraph 13 to a producer other than Warner Bros. and does not mean “assignment” of the Artist to one of Warner Bros. productions.

Initially it must be noted that there was no finding made concerning whether Garner was “assigned” to a production by Warner. The court did find (Finding XV) that “The production by plaintiff of the ‘Maverick’ series was not suspended, interrupted or postponed by reason of the writer’s [sic] strike.” (Emphasis added.) . . .

An examination of the record discloses that there is substantial evidence to support the trial court’s determination (Finding XV) that “The production by plaintiff of the ‘Maverick’ series was not suspended, interrupted or postponed by reason of the writer’s [sic] strike.”

As of March 2, 1960, Warner had completed production on the Maverick series for 1959–1960 and had filmed one “extra” episode which was not scheduled to be telecast until September 25, 1960. In the past, Warner had not started production until May or June or later, with respect to the next air date season, and producer Trapnell testified that when he took over as Maverick producer on June 15, 1959, there was not a single completed script for the 1959–1960 season, yet Warner met its September 12 air date. Warner’s executives knew that production on the Maverick series for the 1960–1961 season would ordinarily not begin until May, at the earliest, and that May production would, as the trial court found (Finding XVII), allow the maximum time necessary to meet the 1960–1961 air date commitments. The facts must be related to the manner by which Warner conducted its business.

On March 3, 1960, Warner had approximately 14 “Hermanos” [“Hermanos” is “brothers” in Spanish—Eds.] writers available in its television department; at least one of the 14 had done work on a Maverick script previously. Warner had at least two stories suitable for development into Maverick scripts and, judging by both past and subsequent events, it could write a Maverick script in 15 days, or possibly rewrite an old script in as little as five days. Furthermore, the head of the television department indicated on direct examination that Warner “. . . may have had other [Maverick and Cheyenne] scripts in at this point but I don’t think so.”

We believe that the evidence, taken as a whole, shows that Warner was able to obtain scripts when Warner wanted them and that production of Maverick was not suspended, interrupted or postponed by reason of the writers’ strike. . . .

At the conclusion of the arguments by counsel, the Reporter’s Transcript discloses that the trial judge made the following statement:

The Court: Well, I am satisfied from the evidence that Warner Bros. did not have justification for laying Mr. Garner off on March 2nd. I think that is indicated by the testimony even of the plaintiff’s witnesses and particularly Mr. Warner.

The trial judge in his “Memorandum Decision” stated in pertinent part as follows:

The court will find that plaintiff was not justified in stopping the payment of defendant's salary, under the provisions of paragraph 15 of the contract, for the reason that the preponderance of the evidence does not establish that a "casualty period" in fact existed; and for the further reason that the refusal to pay Garner's salary was in bad faith as evidenced, in part, by the manner in which the Bob Hope Show transaction [In which Garner was "loaned out" to the Bob Hope Show as a guest star—Eds.] was handled. Plaintiff's act in refusing to pay defendant's salary justified Garner in treating the refusal as a total breach of the contract.

When the dispute arose as to the rights of Warner Bros. to suspend Garner's salary, it could have protected itself by paying the salary and recouping the amount paid—if the suspension was justified—under the provisions of the second paragraph of numbered paragraph 17 of the contract.

A reasonable inference can be drawn from all of the evidence that Warner knew that it would not be in any trouble with respect to *Maverick* unless it could not start preparing another episode by May 1, 1960 (at the very earliest, since one 1960–1961 episode was already completed). Warner did in fact start preparation on two episodes in late April and by June 15 (at least three months prior to the first air date and still before the end of the writers' strike) had completed "preparation" and "production" on four "*Maverick*" episodes, was filming a fifth, and had four scripts in preparation.

Finally, Warner asserts as its last contention that "If Warner erroneously interpreted the contract, its action did not constitute a serious and total breach justifying a termination by Garner."

Warner's contention cannot be sustained. When Warner informed Garner that it elected not to pay Garner the stipulated weekly salary, Warner's act constituted a refusal, without cause, to pay an employee his compensation. The employee's right to *terminate* the contract where there has been a wrongful refusal to pay compensation is established by both the statutory and case law of this jurisdiction.

Labor Code section 2925 provides that "An employment for a specified term may be terminated by the employee at any time in case of any *wilful* or permanent breach of the obligations of his employer to him as an employee." (Emphasis added.) As set forth above, the trial judge in his "Memorandum Decision" stated that the "breach in this case was wilful."

In *May v. New York Motion Picture Corp.*, 45 Cal.App. 396, the court defined "wilful" in connection with what is now Labor Code section 2924, and stated at page 404 in part as follows, 187 P. 785, at page 788.

In civil cases, the word "wilful," as ordinarily used in courts of law, does not necessarily imply anything blamable, or any malice or wrong toward the other party, or perverseness or moral delinquency, but merely that the thing done or omitted to be done was done or omitted intentionally. It amounts to nothing more than this: That the person knows what he is doing, intends to do what he is doing, and is a free agent. *Benkert v. Benkert*, 32 Cal. [467] 470; *Towle v. Matheus*, 130 Cal. [574] 577, 62 Pac. 1064; 40 Cyc. 944. . . .

Having disposed of Warner's contentions raised on its appeal from the judgment, we now turn to Garner's contentions on his limited appeal from the judgment. . . .

Garner, on April 26, 1960, filed an "Amended Cross-Complaint (Damages for

breach of contract; Injunction).” As set forth above Garner was awarded the sum of \$1,750 plus interest, and Garner’s appeal is from that award.

The basis for the trial court’s determination that Garner was entitled to judgment in the sum of \$1,750 is succinctly set forth in his “Memorandum Decision” as follows:

This brings us to the question of Garner’s right to recover damages.

It must be remembered that Garner was not discharged. (Emphasis added.)

As was said in *Percival v. National Drama Corp.*, 181 Cal. 631, p. 638 [185 P. 972]: “The evidence does not show that the defendant refused to permit the plaintiff to render any services. The most that can be said of it is that defendant did not require any services of plaintiff. This fact, unless accompanied by some affirmative act indicating a discharge, is not sufficient proof thereof.”

When Warner Bros. notified Garner his salary would be suspended he (underlining shown) treated it as a breach of the contract. Warner Bros. was still anxious for him to render services under the contract.

The law is that if an employee is discharged his remedy is an action for damages. Where he has not been discharged but merely has been prevented by the employer from working, he need not treat the contract as broken but may sue on the contract and recover the agreed compensation. But in order to recover the agreed compensation he must be ready, able and willing to perform.

In this case, after declaring a breach of the contract, Garner refused to recognize it and refused to render services to or for Warner Bros.

Therefore, while Garner had the right to terminate the contract, he does not have the right to recover damages. The right he had was the option to quit his employment and sue for the salary then due, or of continuing in the employ of Warner Bros., and sue for his salary as it accrued. . . .

Garner terminated the contract about one week after the commencement of the term, and he is entitled to be paid for that period. (Emphasis added.)

In accordance with the foregoing the court will find and conclude: that the conditions that would have warranted Warner Bros. to suspend Garner’s salary did not exist; that Garner was justified in terminating the contract; that Garner does not have the right to recover damages for breach of contract because he terminated the contract and was unwilling to perform further; that Garner has the right to recover one week’s salary, i.e., \$1,750.00, and his costs of suit. . . .

In the light of the evidence, the findings of fact based thereon and the conclusions of law which flow from the findings, it is clear that the trial court correctly determined the amount of damages to which Garner was entitled, unless this court holds as a matter of law that Warner’s suspension of Garner’s salary payments constituted a “wrongful discharge.”

It is stated in *Percival v. National Drama Corp.*, 181 Cal. 631, 637–638, 185 P. 972, 974:

A discharge cannot be effected by a secret, undisclosed intention on the part of the master. It must be done by some word or act communicated to the servant. “No set form of words is necessary; but any words or acts which show a clear intention on the part of the master to dispense with the servant’s services, and which are equivalent to a declaration to the servant that his services will be no longer accepted, are sufficient.” (26 Cyc. 987.) . . . [T]he authorities declare that mere failure of the master to pay wages to the servant does not amount to a discharge. (Citations.) Such failure or refusal to pay merely gives the servant the option of quitting his employment and the right to sue for the salary then due and unpaid, or of continuing

in the service, with the corresponding right to require and enforce payment of the salary as it accrues. (Emphasis added.)

Even when the refusal to pay is accompanied by a refusal to permit the servant to perform the duties it has been held that no discharge was shown. . . .

The *Percival* case has been cited in later cases as authority to the effect that: (1) nonpayment of compensation in itself is not a discharge. . . . (2) no set words or language are necessary to constitute a discharge provided the circumstances show a disclosure of an unequivocal intention on the part of the employer to dispense completely with the services of the employee. . . . and (3) one of the factors entering into determining such intent would be whether the employer has gone out of business. . . .

We are not prepared to hold as a matter of law that the suspension by Warner constituted a discharge. Without belaboring the point we believe that the trial court, upon the evidence presented, was correct in its determination.

For the reasons stated, the judgment, and the whole thereof, is affirmed.

NOTES

1. For an excellent commentary on the ramifications of the Bumgarner decision, see Frackman, "Failure to Pay Wages and Termination of Entertainment Contracts in California," 52 *S. Cal. L. Rev.* 333.

2. Because Garner did not seek employment elsewhere during the duration of the litigation, injunctive relief was not sought, and it remains unresolved whether an employer may obtain an injunction against an employee who is seeking to terminate the employment agreement under Section 2925.

3. It also remains unresolved whether an employee's rights under Section 2925 would be subject to a contractual "right to cure" as, arguably, such a provision could be deemed an unenforceable waiver of a public policy Labor Code provision.

4. An employer faced with the facts of *Warner Bros. v. Bumgarner* might be best served to pay the wages of the employee "under protest."

5. The following provisions for the title "Force Majeure: Defaults and Remedies" appear in a recent record company/music production agreement:

(a) If Company's performance hereunder is delayed or becomes impossible or commercially impracticable by reason of any force majeure event, including, without limitation, any act of God, fire, earthquake, strike, civil commotion, acts of government or any order, regulation, ruling or action of any labor union or association of artists affecting Company and/or the phonograph record industry, Company, upon notice to Producer, may suspend its obligations hereunder for the duration of such delay, impossibility or impracticability, as the case may be. In the event any force majeure suspension exceeds six (6) consecutive months, Producer may terminate the term of this agreement upon ten (10) days written notice to Company; provided, that any such termination by Producer shall be effective only if the force majeure event does not affect a substantial portion of the United States recording industry, in no way involves Producer's or Artist's acts or omissions, and Company fails to terminate the suspension within ten (10) days after its receipt of Producer's notice. Company shall not withhold payment of royalties during any such suspension unless the force majeure event materially impairs Company's ability to calculate and/or pay royalties.

(b) Each of the following shall constitute an event of default hereunder:

(i) Artist's voice and/or playing ability becomes impaired as determined by a physician reasonably designated by Company and Producer (provided that Producer shall not thwart Company's rights under this paragraph 11(b) by failing to designate a physician) or Artist ceases to seriously pursue Artist's career as an entertainer or Producer attempts to assign this agreement except as permitted hereunder or Producer and/or Artist fails, refuses or neglects to fulfill any of their respective material obligations hereunder.

(ii) In the event Producer or Artist commences a voluntary case under any applicable bank-

ruptcy, insolvency or other similar law now or hereafter in effect or consents to the entering of an order for relief in any involuntary case under such law or consents to the appointment of or taking possession by a receiver, liquidator, assignee, trustee or sequestrator (or similar appointees) of Producer or Artist or any substantial part of Producer's or Artist's property or Producer or Artist makes any assignment for the benefit of creditors or takes any act (whether corporate or otherwise) in furtherance of any of the foregoing.

(iii) If a court having jurisdiction over the affairs or property of Producer or Artist enters a decree or order for relief in respect of Producer or Artist or any of Producer's or Artist's property in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or appoints a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar appointee) or Producer or Artist or for any substantial part of Producer's or Artist's property or orders the winding up or liquidation of Producer's or Artist's affairs and such decree or order remains unstayed and in effect for a period of fifteen (15) consecutive days.

(c) On the occurrence of any event of default, Company, in addition to its other rights or remedies, may, by notice to Producer, elect to (i) suspend its obligations to Producer hereunder for the duration of such event (except that Company shall not suspend its obligation to pay royalties earned hereunder if Producer's failure to perform Producer's obligations is caused by reasons beyond the reasonable control of Producer), (ii) terminate the term of this agreement by written notice to Producer given at any time (whether or not during a period of suspension based on such event or based upon any other event), and thereby be relieved of all liability other than any obligations hereunder to pay royalties in respect of Masters delivered prior to termination and/or (iii) require Artist to render Artist's exclusive recording services (and Artist's services as an individual Producer to the extent required hereunder) directly to Company in accordance with Artist's inducement letter.

(d) Producer acknowledges that its performance and the services of Artist hereunder, and the rights granted Company herein, are of a special, unique, extraordinary and intellectual character which gives them peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law, that a breach by Producer or Artist hereunder from, or to render performances due to Producer hereunder for, any party or person other than Producer, including, without limitation, any successor in interest to Producer. Company shall be entitled to seek injunctive and/or other equitable relief to prevent a breach of this agreement by Producer and/or Artist, which relief shall be in addition to any other rights or remedies which Company may have, whether for damages or otherwise.

2.4 CONTRACT FORMALITY: AVAILABILITY OF INJUNCTIVE RELIEF

As stated in the reply memorandum of Warner Bros. Pictures in the preliminary injunction phase of the Guber/Peters litigation arising out of Sony's acquisition of Columbia Pictures, "[D]reams and expectations do not constitute an agreement." The entertainment industries exist on ideas turned into deals. When an idea is "hot," immediate action is desired. Parties rush to agree, and, in the process, desire at times outraces common sense. The "deal," as it turns out, is strictly verbal, or there are scattered memos but no single, final, formal written agreement. The question then becomes, did the parties actually reach agreement? Is there really a contract, with the final writing only a memorial of the deal already concluded? Is there a sufficient writing to satisfy the applicable statute of frauds? If the production proceeds as envisioned, these questions are moot. There is no problem because the idea becomes a deal that produces a success, and everyone is happy.

But at other times, dreams die early, when the great concept does not live up to expectations, management changes, or better opportunities are seen elsewhere. In those circumstances, the deal sours, the parties go to war, and inevitably the questions involving contract formality become pressing inquiries. The following

three cases illustrate these problems when one party to a transaction must argue that a contract exists without the benefit of a signed written agreement.

2.4.1 The New York Experience

Metro-Goldwyn-Mayer, Inc. v. Scheider, 43 A.D.2d 922, 352 N.Y.S.2d 205 (App. Div. 1st Dept. 1974), *aff'd*, 40 N.Y.2d 1069, 360 N.E.2d 930, 392 N.Y.S.2d 252 (1976)

... In September, 1971, plaintiff, a producer of films, and ABC, a television broadcaster, made an agreement, pursuant to which plaintiff was, at ABC's option to be exercised after receipt of a script, to make a pilot film to be the precursor, if ABC exercised a second option to that effect, of a television series to be broadcast by ABC either in the fall of 1972 or the next mid-season. By trade custom, if ABC opted for the series for fall (September) commencement of broadcast of the series, filming would be required to start no later than June; if for mid-season (January) commencement, then filming would start in November. Plaintiff then entered into an oral agreement, the basic terms of which were arrived at on or about September 30, 1971, with defendant, an actor, to play the lead in both the pilot, should ABC opt to have it made, and in the making of the series, and possible yearly series for five years, should ABC decide to proceed. As requested by defendant to relieve him of unnecessary commitments, it was further agreed that, if ABC decided not to proceed and so advised plaintiff, plaintiff's option to command defendant's services would cease. Agreed sums were to be paid defendant, depending on the extent of the work.

In February, 1972, the pilot having been made, and accepted, ABC decided to proceed. Defendant was notified by plaintiff to report no later than June 5, 1972, to start filming in time for commencement of broadcast by September 15. Defendant refused. Plaintiff promptly instituted this action to enjoin defendant from working for others, and for damage for the breach. Defendant interposed a defense of Statute of Frauds, claiming the contract not to be performable within a year (section 5-701[1], General Obligations Law). Trial Term sustained the defense. We hold the agreement by its terms to have been performable within a year. ABC controlled the cutoff date and could have terminated the agreement at any option stage. Nor is it unusual for a third party to govern the possibility of performability of a contract. . . . In any event, as the dates turned out, as chosen by ABC and ordered by plaintiff, performance for this series would have been complete before the first broadcast date, less than a year from the first agreement. And ABC retained an option to stop then or to go on from year to year thereafter. Thus, the contract was terminable at any time within a year whenever ABC chose. . . . The Statute of Frauds is not applicable and cannot serve to defeat plaintiff's claim.

NOTES

1. Several additional factors not evident from this decision are relevant. At the time of the initial negotiations between MGM and Scheider, Scheider was a relatively unknown actor who had had a minor part in the movie *Klute* and a supporting role in the film *The French Connection*, which was at that point in time unreleased. After filming the pilot to the TV series for MGM (entitled "Munich Project") in November of 1971, Scheider met with William Friedkin, the director who was about to shoot the film *The Exorcist*, and it

may very well have been possible that Scheider wanted to star in that film at the time he refused to start filming the TV series. Also, given the release and critical acclaim received by *The French Connection*, it is safe to say that Scheider's stock (and salary) had gone up considerably since the initial negotiations.

The oral agreement reached between MGM and Scheider provided that Scheider would receive \$20,000 for the pilot and, for any subsequent series, \$5000 per episode in the first year, with escalations in subsequent years. The damages awarded to MGM for breach of contract were based upon the difference between the amount MGM would have paid to Scheider under the contract for the series and the \$183,488 paid to the replacement actor, Robert Conrad, for the eight produced episodes of the program. The difference of \$120,888 with interest, was awarded to MGM.

2. This is a New York decision. Had the case been determined under California law, the result, as to injunctive relief, would clearly have been different under California Civil Code § 3423 (see Section 2.4.2.)

3. The preceding *MGM* case can be contrasted with *Sawyer v. Sickinger*, 366 N.Y.S.2d 435 (1975), 47 A.D.2d 291 (1975), in which the plaintiff sued for injunctive relief to compel the defendant to specifically perform an oral agreement which allegedly granted to the plaintiff the exclusive option to acquire the defendant's motion picture and the related motion picture rights in a novel and to pay 1.5 percent of the producer's share of net profits from that motion picture. Such an agreement would seem to be incapable of performance within one year, and thus unenforceable under the statute of frauds. In the *Sawyer* case, correspondence of the attorney for the plaintiff distinguished ongoing negotiations with a view toward a possible contractual relationship from the actual existence of a bona fide contract. The court, referring to New York law, found that the alleged obligation to pay a percentage of profits was continuing, was not subject to termination by either party, and, accordingly, could not be performed within one year.

4. If it is established that the parties did not intend their agreement to be binding until in writing and signed, there is no enforceable oral agreement. See *Scheck v. Francis*, 26 N.Y.2d 466, 311 N.Y.S.2d 841 (1975).

5. However, a course of conduct may create a contractual obligation, even where a formal written contract is contemplated, especially if the party desiring to enforce the contract has taken action in reliance on the agreement with knowledge of the other party.

6. Under certain circumstances, a court may determine that a basic agreement has been entered with the understanding of the parties that certain terms will be agreed upon at a later time. A court, faced with such an agreement, may enforce the contract and require the parties to reasonably negotiate those additional terms. Contrast the ruling in *Scheider* with that in *American Broadcasting Company, Inc. v. Wolf* (see Section 6.3).

7. Agreements that transfer ownership of copyright or grant an exclusive license in a copyright—which would include virtually all book publishing, music publishing, record, and motion picture and television acquisition agreements—must be in writing to be enforceable under copyright law. The Copyright Act of 1976, 17 U.S.C. § 204 (a) provides: "A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." The Act defines a "transfer of copyright ownership" as: "an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license" (17 U.S.C. § 101.)

8. Singer-songwriter John Mellencamp filed an action against his music publisher seeking the return of copyrights to his songs. In one of the causes of action, Mellencamp argued there existed an oral agreement which provided that copyrights to his songs would be conveyed back to him. As evidenced in the decision of *Mellencamp v. Riva Music, Ltd.* (see Section 5.2.1), the statute of frauds barred Mellencamp's argument.

9. See, also, *Jillyc Film Enterprises, Inc. v. Home Box Office*, 593 F. Supp. 515

(S.D.N.Y. 1984) in which Plaintiff, Jilley Film Enterprises, Inc., a Canadian corporation that was formed for the purpose of producing a film documentary of the making of “The Terry Fox Story” sued HBO for breach of an oral agreement (which was found to be within the statute of frauds and, therefore unenforceable) and breach of a letter agreement between Jilley and HBO the relevant terms of which were:

- (a) HBO gave Jilley the right to film a documentary of the filming of “The Terry Fox Story.”
- (b) Within six weeks after the commencement of the film, Jilley was to submit some rough footage of the documentary that had been filmed up to that point.
- (c) For a period of up to 90 days after the delivery of that rough footage, the parties agreed to “negotiate exclusively and in good faith with respect to the terms and provisions relating to the distribution, exhibition or other exploitation of the documentary.”
- (d) Finally, the parties agreed that “in the event that you and we do not reach agreement,” Jilley would not use the documentary in the United States for the duration of the copyright in the documentary.

Citing the *Candid* decision (see Section 2.3.1), the Court concluded “[b]ecause no definite, objective criteria or standards against which HBO’s conduct can be measured were provided in the July 21, 1982 letter agreement, the provision is unenforceable on the grounds of uncertainty and vagueness and should be dismissed.”

10. See also *Rock Tours, Ltd. v. Kiss (a partnership) and Kiss Organization, Ltd.*, 84 Civ. 0011-CLB (U.S. Dist. S.D.N.Y. 1985)

11. Entertainment transactions often move so quickly that the deal, as it evolves on car phones and fax machines, is weeks or months ahead of the fully executed contracts that memorialize the agreement. Problems occur when the contracts do not reflect the understanding of the parties, due either to verbal modification of the agreement or ambiguities in the agreement itself. In these circumstances the parol evidence rule, an old and settled principle of law that generally provides that a party may not offer proof of a prior or contemporaneous negotiation or oral statement to contradict the clear meaning of the unambiguous terms of a written agreement, takes on significance. If the intent of a contract is clear from the language of the document, parol evidence is not admissible. If, however, the underlying contract is ambiguous, the parties may submit parol evidence concerning the facts or circumstances regarding intent of the parties. See *Meinrath v. Singer Co.* 482 F. Supp. 457 (S.D.N.Y. 1979), *aff’d*, 697 F.2d 293 (2d Cir. 1982).

2.4.2 California Injunction Statutes

In reviewing the various statutory provisions of states heavily involved in the entertainment industries, most particularly California, the company’s ability to enforce a personal services contract must be considered when the contract is initially entered into. Under certain statutes, an artist may have a right to terminate a contract for cause, which would obviously relieve the artist of the duty to perform under that contract. This remedy is to be distinguished from an artist’s ability to cease performing and remain free from an injunction on other statutory grounds.

The collective California statutes may represent to the artist the only realistic opportunity to terminate the personal services contract prematurely and, likewise, may create an enormous number of pitfalls that the company may be subject to that ultimately may restrict or prevent enforcement of the agreement.

Two sections of the California statutes, California Civil Code § 3423 and California Code of Civil Procedure § 526 were, prior to 1994, collectively referred to as the “\$6,000 per year statute.” Since the extensive revisions to § 3423 enacted by the California Legislature in 1994 the two statutes are now called the “\$9,000 plus” statute. The statutes basically provide that in order to provide the

basis for injunctive relief, a contract must be in writing, provide for services that are unique and extraordinary, and provide for a minimum compensation (which was, until 1994, at the rate of not less than \$6,000 per year).

It is obvious that, without injunctive relief, the validity, importance, and position of the exclusive personal services contract in the entertainment industry are significantly undermined. While the motion picture studio, record company, music publishing company, or television studio may still seek damages against the breaching artist, a negative injunction may be the only effective remedy in ultimately enforcing the personal services contract.

It is important to note that the \$9,000 plus per year rule is not a mandatory condition placed on all employers but, ultimately, inclusion of that clause in all entertainment service contracts would have a significant economic effect on the entertainment industry and its constituent personnel.

We consider first two important sections of the California Civil Code. Then we turn to three cases that applied the earlier \$6,000 per year statute.

§ 3390. Obligations not specifically enforceable

The following obligations cannot be specifically enforced:

1. An obligation to render personal service;
2. An obligation to employ another in personal service; . . .

The amended Cal Civ Code § 3423 (1994) is as follows:

§ 3423. When injunction may not be granted

An injunction may not be granted: . . .

(e) To prevent the breach of a contract the performance of which would not be specifically enforced, other than a contract in writing for the rendition of personal services from one to another where the promised service is of a special, unique, unusual, extraordinary, or intellectual character, which gives it peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law, and where the compensation for the personal services is as follows:

(1) As to contracts entered into on or before December 31, 1993, the minimum compensation provided in the contract for the personal services shall be at the rate of six thousand dollars (\$ 6,000) per annum.

(2) As to contracts entered into on or after January 1, 1994, the criteria of subparagraph (A) or (B), as follows, are satisfied:

(A) The compensation is as follows:

(i) The minimum compensation provided in the contract shall be at the rate of nine thousand dollars (\$ 9,000) per annum for the first year of the contract, twelve thousand dollars (\$ 12,000) per annum for the second year of the contract, and fifteen thousand dollars (\$ 15,000) per annum for the third to seventh years, inclusive, of the contract.

(ii) In addition, after the third year of the contract, there shall actually have been paid for the services through and including the contract year during which the injunctive relief is sought, over and above the minimum contractual compensation specified in clause (i), the amount of fifteen thousand dollars (\$ 15,000) per annum during the fourth and fifth years of the contract, and thirty thousand dollars (\$ 30,000) per annum during the sixth and seventh years of the contract. As a condition to petitioning for an injunction, amounts payable under this clause may be paid at any time prior to seeking injunctive relief.

(B) The aggregate compensation actually received for the services provided under a

contract that does not meet the criteria of subparagraph (A), is at least 10 times the applicable aggregate minimum amount specified in clauses (i) and (ii) of subparagraph (A) through and including the contract year during which the injunctive relief is sought. As a condition to petitioning for an injunction, amounts payable under this subparagraph may be paid at any time prior to seeking injunctive relief.

(3) Compensation paid in any contract year in excess of the minimums specified in subparagraphs (A) and (B) of paragraph (2) shall apply to reduce the compensation otherwise required to be paid under those provisions in any subsequent contract years . . .

In the following excerpt, Robert M. Dudnik explains the workings of §3423 as revised in 1993. Prior to January 1, 1994, an employer had to guarantee the performer compensation at the rate of \$6,000 per annum. This article explains the sliding scale/optional multiple process that applies to contracts executed on or after January 1, 1994. This article is reprinted with permission from the November 1993 issue of the Entertainment Law & Finance Newsletter © 1993 NLP IP Company.

The Newly Revised California Injunction Statute

By Robert M. Dudnik*

[A]n injunction may be issued if the compensation criteria of either subparagraph (e)(2)(A) of Section 3423 (“subparagraph (A)”) or subparagraph (e)(2)(B) of Section 3423 (“subparagraph (B)”) are fulfilled.

Injunctions Under Subparagraph (A)

The changes to the law mandated by subparagraph (A), when it is read with paragraph (e)(3) of Section 3423, involve: a sliding scale of guaranteed minimum compensation for each year of the contract, with the first year starting at \$9,000; a requirement that specified additional compensation, over and above the guaranteed minimum, shall actually have been paid starting with the fourth year of the contract; a provision that compensation paid in any year in excess of the minimum specified for that year shall apply to reduce the compensation otherwise required to be paid in any subsequent contract years; and a provision permitting the employer to satisfy the actual payment requirement—as distinguished from the guaranteed minimum requirement—by making payment at any time prior to seeking injunctive relief.

Chart 1 illustrates the compensation requirements under a literal reading of subparagraph (A) as it is supplemented by paragraph (e)(3):

Chart 1

Contract Year	Minimum Guarantee	Amount That Must Have Actually Been Paid During The Year In Which Injunction Is Sought	Amount that Must Have Actually Been Paid From Inception Through Filing For Injunction
1	\$9,000	0	0
2	\$12,000	0	0
3	\$15,000	0	0

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4	\$15,000	\$30,000	\$ 66,000
5	\$15,000	\$30,000	\$ 96,000
6	\$15,000	\$45,000	\$141,000
7	\$15,000	\$45,000	\$186,000
	Note: \$ paid in any year in excess of minimum required to be paid for that year will reduce payment requirement for later years		Note: Payable at any time prior to filing for injunction

Injunctions Under Subparagraph (B)

Subparagraph (B) permits the employer to obtain an injunction where the guaranteed minimum compensation requirement of subparagraph (A) is not satisfied; indeed, it permits an injunction even where the contract provides for no guaranteed compensation, so long as certain amounts are actually received by the performer each year. Subparagraph (B) is thus a total departure from the prior law.

Chart 2 illustrates the compensation requirements under a literal reading of subparagraph (B) as supplemented by paragraph (e)(3).

Chart 2

Contract Year	Amount That Must Have Been Actually Received During The Year In Which Injunction Is Sought	Amount That Must Have Been Actually Received From Inception Through Filing For Injunction
1	\$ 90,000	\$ 90,000
2	\$120,000	\$ 210,000
3	\$150,000	\$ 360,000
4	\$300,000	\$ 660,000
5	\$300,000	\$ 960,000
6	\$450,000	\$1,410,000
7	\$450,000	\$1,860,000
	Note: \$ paid in any year in excess of minimum required To be paid for that year will reduce payment requirement for later years	Note: Payable at any time prior to filing for injunction

Comments on the New Law

Subparagraph (A)(i)'s guaranteed minimum compensation requirement appears to provide that unless the contract guarantees the specified minimum during each year of its term, no injunction may issue (unless, of course, the requirements of subparagraph (B) are satisfied). In other words, if a five-year contract provided for no guarantee during its first year, but set forth the required guaranteed minimums for its remaining four years, it would appear that no injunction could properly issue under subparagraph (A) during any contract year, even if the actual payment requirements of subparagraph (A)(ii) were satisfied . . .

With respect to the actual payment requirements of both subparagraph (A)(ii) and subparagraph (B), it would be surprising if royalties and other forms of contingent compensation could not be included in determining whether these requirements have been met. Not so clear, however, is the extent to which recording fund payments may be included. It would seem that the portion (if any) of a recording fund not actually utilized by the artist in recording his or her album should be included in determining the amount of compensation paid. However, determining what that portion amounts to could prove very difficult for record companies. One solution would be to contractually obligate artists with recording fund deals to submit statements under oath with respect to the amount expended in producing their albums within a specified period after delivery. Whether tour support payments may be included in determining the amount paid is an open question.

If on the first day of a contract year a performer states that he or she will no longer perform and intends to sign with a competitor, the employer may have to make a substantial payment under subparagraph (A)(ii) or subparagraph (B) to cover the full payment requirement for that particular year, since there is no provision for pro-rating. If the employer makes such a payment but fails to obtain the injunction, a question would arise as to whether it could include the payment in its claim for damages.

Another question arises from the annual payment requirements of subparagraph (e)(ii) and the “crediting” provision in paragraph (a)(3). To illustrate, assume that a performer with a contract that satisfies the guaranteed minimum requirement of subparagraph (A)(i) is actually paid \$14,000 during the first contract year, \$17,000 during the second, and \$20,000 during the third. If this performer threatens to sign with a competitor during the fourth year, the question would arise as to what, if anything, the company must pay to satisfy the fourth year’s \$30,000 payment requirement of subparagraph (e)(ii), given the “crediting” provided for in paragraph (a)(3), and given the fact that the performer was paid \$51,000 during the first three years, \$15,000 of which was in excess of the guaranteed minimum. It could be argued that: the company need only pay an additional \$15,000, since \$15,000 in excess of the guaranteed minimum was paid during the first three contract years; the company need pay nothing, since the company paid \$51,000 during the first three years despite the fact that the actual payment requirement during the first three years is zero; or the company must pay \$30,000 on the ground that because there is no actual payment requirement during the first three years, what was actually paid is irrelevant for crediting purposes.

Although the discussions of the \$6,000-per-year guarantee in the following cases are no longer in effect, the decisions are still relevant to any discussion of the availability of injunctive relief under §3423. The *Newton-John* case illustrates the hazards of terms based on fixed time periods, and the *Brockert* case illustrates that the references in §3423 to the stature of the artist are not mere boilerplate.

**MCA Records, Inc. v. Newton-John, 90 Cal.App. 3d 18, 153 Cal.Rptr.
153 (1979)**

FLEMING, J.

Defendant Olivia Newton-John, a singer, appeals a preliminary injunction restraining her from recording for anyone other than plaintiff MCA Records while MCA’s action is pending “or until April 1, 1982, if that date shall occur during the pendency of this action.” . . . [Ms. Newton John’s agreement gave her control over the recording process, and provided advances of] \$250,000 for each recording received during the initial two years, and an advance of \$100,000 for each

recording received during the option years. The cost of producing the recordings would be borne by defendant. [The court rejected Ms. Newton-John's argument that she could not be enjoined from recording for third parties because MCA did not guarantee that she would net at least \$6,000 every twelve months, because that would permit her to spend her way out of the deal. However, the court would not accept the injunctive period prescribed by the trial court.]

Defendant contends she cannot be suspended by plaintiff and at the same time enjoined from rendering personal services for others. . . . But defendant has not been suspended. She is still free to record for plaintiff, and, in the event she chooses to record, nothing in the agreement relieves plaintiff from its obligation to compensate her . . . [T]he grant of a preliminary injunction lies within the discretion of the trial court . . . and an explicit finding of irreparable harm is not required to sustain the trial court's exercise of that discretion. . . . In requesting injunctive relief plaintiff alleged that if defendant were permitted to record for a competitor, it would suffer irreparable injury, both in loss of profits and loss of goodwill. This allegation was supported by substantial evidence that defendant's services are unique. Absent any indication to the contrary, we can presume from the trial court's order granting the preliminary injunction that the court did in fact find that irreparable injury would be imminent unless the injunction were granted. . . . [However, Ms. Newton-John] contends that even if the court did not err in granting a preliminary injunction, it erred in authorizing the preliminary injunction to extend beyond the five-year term of the agreement. Plaintiff responds, in effect, that so long as defendant fails to perform her obligations under the contract, the term of the agreement, and thus of the preliminary injunction, may be extended until the seven-year statutory maximum has elapsed. (Lab. Code, §2855.)

Because a period of five years has not yet passed since defendant began her employment on April 1, 1975, the issue of the availability to plaintiff of injunctive relief after April 1, 1980, is technically premature. Nevertheless, we consider the language in the preliminary injunction extending its possible duration to April 1, 1982, inappropriate for two reasons:

First, if defendant had performed under the contract, plaintiff would not be entitled to prevent her from recording for competitors at the end of the five-year term of the agreement. We have grave doubts that defendant's failure to perform her obligations under the contract can extend the term of the contract beyond its specified five-year maximum. . . .

Second, the injunction appealed here is merely a preliminary injunction, whose sole function is to preserve the status quo pending a final judgment in the action. . . . Plaintiff's general duty to exercise due diligence in the prosecution of its action and to bring it to conclusion within a reasonable time (Code Civ. Proc., §§ 581a, 583) is particularly strong when, as here, the cause involves injunctive and declaratory relief (see Code Civ. Proc., §§ 527 and 1062a, which give priority to such actions). To the extent the phrase "until April 1, 1982" suggests that plaintiff, without taking further action, may prevent defendant from recording for competitors until 1982, the phrase is misleading.

The order for preliminary injunction is modified by deleting the phrase, "or until April 1, 1982, if that date shall occur during the pendency of this action," and as so modified, the order is affirmed.

NOTE

Largely as a result of this case, recording and music publishing companies changed their contract forms so that each period of the term would run for the longer of a stated

time (usually twelve months) or until delivery of a specified number of recordings or compositions. In this manner, the issue of suspension (and the permissible length thereof) would no longer arise.

Although the payments required in order to secure an injunction under the amended §3423 are considerably higher than those formerly required under the earlier version of the statute, the employer must still demonstrate the requisite status. As the following case indicates, unless the talent has been the subject of an “auction” (i.e., multiple companies have been in the bidding for his/her/their services) or the artist has a proven track record, the company may encounter difficulties with the “status” branch of the statute.

**Motown Record Corporation v. Brockert, 160 Cal.App. 3d 123, 207
Cal.Rptr. 574 (1984)**

JOHNSON, ACTING PRESIDING JUDGE

[The court held that Motown did not comply with the then-applicable \$6000/per annum guarantee requirement of §3423 because the contract merely reserved to Motown the option to guarantee such payments. However, the court also addressed the issue of whether or not Teena Marie was of sufficient stature to warrant application of §3423, and held that she was not.] In 1976, [when she signed with Motown,] she was an unknown in the music business. Her experience consisted of singing with local bands at weddings, parties, and shopping centers and roles in school musicals. She had written some songs but none had been recorded or released commercially . . . Between 1979 and 1980 Teena Marie recorded four albums for Motown. All were successful. Indeed her fourth and last album, “It Must Be Magic,” achieved gold record status, selling more than 400,000 copies . . .

[On the issue of whether Teena Marie was of sufficient stature to meet the uniqueness requirements of §3423, w]e begin our review with *Lumley v. Wagner*, (1852) 42 Eng. Rep. 687]. Johanna Wagner was not an unknown member of a chorus line at the time her case arose. She was one of Europe’s best known opera singers, niece of Richard Wagner and “cantatrice of the Court of His Majesty the King of Prussia.” . . . Her contract with Lumley called for her to perform at Her Majesty’s Theatre in London twice a week for three months at the rate of 100 pounds per week; a significant sum considering the wage of a unionized bricklayer in London at the same time was less than two pounds per week. (23 Encyclopedia Britannica, *supra.*, at p. 270.)

It was not uncommon for courts of that time to distinguish *Lumley v. Wagner* on the ground that there the services of an exceptional artist and a considerable sum were involved. Among the best known of these cases are *Whitwood Chem. Co. v. Hardman*, *supra*, 2 Ch. 416 In *Whitwood*, Lindley, L. J. stated, “I look upon *Lumley v. Wagner* rather as an anomaly to be followed in cases like it, but an anomaly which it would be very dangerous to extend.” (2 Ch. at p. 428.]) *Arthur v. Oakes* (7th Cir. 1894) 63 F. 310 . . . and *Dockstader v. Reed* (1907) 121 App.Div. 846 [106 N.Y.S. 795]. In *Dockstader* the court refused to enjoin the defendant from singing for another company noting, *inter alia*, “The salary agreed to be paid defendant was quite moderate, and indicates that his part was quite ordinary, and manifestly could be easily filled.” (106 N.Y.S. at p. 797.]) Thus, at the time section 3423 was amended there was a discernible trend toward en-

forcing negative covenants against the “prima donnas” but not the “spear carriers.” (See *Carter v. Ferguson* (1890) 58 Hun. 569 [12 N.Y.S. 580, 581]; and see generally, 11 *Williston on Contracts, supra*, § 1450, pp. 1042–1043; 5A Corbin on Contracts, *supra*, §1209, p. 417; 4 Pomeroy, *Equity Jurisprudence* (5th ed. 1941) § 1343, p. 943.)

Aside from the *Lumley* line of cases there is an even older judicial tradition which helps to explain why the California Legislature sought to limit injunctive relief to performers of star quality. A fundamental reason why courts will not order specific performance of personal services contracts is because such an order would impose on the courts a difficult job of enforcement and of passing judgment upon the quality of performance. (See 11 *Williston on Contracts, supra*, § 1423, pp. 782–783; 5A Corbin on Contracts, *supra*, § 1204, p. 400; *Poultry Producers etc. v. Barlow, supra*, 189 Cal. 278, 288–289; *Light, supra*, at p. 143.) As Corbin observes in his treatise, “An artist does not work well under compulsion, and the court might find it difficult to pass judgment upon the performance rendered.” (5A Corbin, *supra*, § 1204, p. 400.)

As the court in *Lumley* candidly admitted, it had no power to compel Madame Wagner to sing at Lumley’s theatre but the injunction prohibiting her from performing elsewhere might well accomplish the same result. (42 Eng. Rep. at p. 693.) Thus there is a danger an artist prohibited from performing elsewhere may feel compelled to perform under the contract and, under the stress of the situation, turn in an unsatisfactory performance. This would lead to further litigation between the parties on the adequacy of the artist’s performance; the very thing the courts traditionally sought to avoid. (See, e.g., *Bethlehem Engineering Export Co. v. Christie* (2d Cir. 1939) 105 F.2d 933, 935 [125 A.L.R. 1441] (Hand, J.)) There is less likelihood of this conundrum arising if the performer is of great renown. Such a performer may well choose not to perform rather than risk her reputation by delivering a sub-par performance. . . .

It is no answer to say that by the time Motown and Jobete sought injunctive relief to enforce the exclusivity clauses Teena Marie had become a star. Motown and Jobete did not contract with a star. By their own admission they contracted with a “virtual unknown.” Nothing in section 3423 prevents the companies from seeking damages from Teena Marie for breach of the exclusivity clause. . . . That section merely says for reasons of public policy the exclusivity clause of a contract can only be enforced by injunction when the contract is with a performer of requisite distinction as measured by the compensation the employer is willing to pay. . . . Moreover . . . allowing the companies, once they judge the artist to have achieved star quality, to enforce the exclusivity clause by injunction would violate the concept of fundamental fairness which is also embodied in section 3423. . . . This is quite clear when section 3423 is read in connection with Civil Code section 3391, subdivision 2, which provides specific performance cannot be enforced against a party as to whom the contract is not “just and reasonable.” Taken together those sections demand a minimum standard of fairness as a condition on equitable enforcement of an exclusivity clause in a personal services contract.

“As one grows more experienced and skillful there should be a reasonable opportunity to move upward and to employ his abilities to the best advantage and for the highest obtainable compensation.” (*De Haviland v. Warner Bros. Pictures* (1944) 67 Cal.App. 2d 225 [153 P.2d 983], 235.) “[A]ny agreement that limits a person’s ability to follow his vocation must be strictly construed.” (*Lemat Corp. v. Barry, supra*, 275 Cal.App. 2d at pp. 678–679.) Therefore, “[a]n injunc-

tion which forbids an artist to accept new employment may be a harsh and powerful remedy. The monetary limitation in the statute is intended to serve as a counterweight in balancing the equities.”

2.5 CREDIT ISSUES

Although it is estimated that he produced more than 300 films during his brief semi-legendary career, MGM’s Irving Thalberg (who later was the model for Monroe Stahr in F. Scott Fitzgerald’s *The Last Tycoon*) never accorded himself the customary producer billing, because in his opinion credit one awarded oneself was worthless.

This may have worked well for Thalberg, who enjoyed a unique status in 1930s Hollywood, but later generations of creative personnel have learned that billing often translates into work and money. This is why it is not unusual to see billboards upon which one actor’s name is on the left above the title (known in the trade as “first position”), a second actor’s name appears just to the right, but *above* the name of the first actor, while a third actor’s name appears on the far right and slightly *below* the name of the first actor. Some years ago, Cary Grant and Sophia Loren resolved the first position problem by agreeing that on half the billboards, Grant’s name would appear on the left, while Loren’s name would appear on the left on the rest of the billboards, a very practical resolution (but one which is rarely utilized).

All matters this important produce disputes, and credit issues are no exception. The legal principles used to resolve such disputes are derived from two sources: (1) contract law, when the affected parties have entered into agreements concerning credit, and (2) statutory and common law, when the affected parties have not entered into such agreements.

2.5.1 By Contract

Because of the importance of credit in the entertainment industry, credit often is one of the subjects specifically covered by contract. Sometimes such contracts are negotiated individually directly between the affected parties, as were the contracts in the *Gold Leaf* and *Tamarind Lithography* cases which follow. On other occasions, credit provisions appear in collective bargaining agreements such as the Writers’ Guild of America agreement which is at issue in the *Ferguson* case below.

Where contractual provisions concerning credits exist, there is no doubt they are perfectly valid and enforceable. Questions have arisen, however, concerning (1) whether a contract requiring that credit be given actually does exist; (2) what remedies are available if the credit provisions of individually negotiated contracts are breached; and (3) whether there is a right to judicial review of credit determinations made by arbitrators pursuant to collective bargaining agreements. *Cleary v. News Corp.* deals with whether a contract for credit existed at all. The *Gold Leaf* and *Tamarind* cases deal with the remedies issue. The *Ferguson* case contains an excellent description of the credit determination standards and procedures that are used by the Writers Guild pursuant to the WGA collective bargaining agreement, and with the issue of judicial review of the credit determinations of union arbitrators.

Cleary v. News Corp., 30 F.3d 1255 (9th Cir. 1994)

WILL, SENIOR DISTRICT JUDGE (sitting by designation)

Dr. James W. Cleary sued News Corporation, the [parent company of HarperCollins and Scott, Foresman and Company, the] publishers of *Robert's Rules of Order*, . . . for alleged . . . breach of contract. . . . The district court granted summary judgment in favor of the defendants. . . . For the following reasons, we affirm.

I. Background

During the 1960s, James W. Cleary helped revise *Robert's Rules of Order* for Scott, Foresman and Company. When the 1970 edition was published, Dr. Cleary was listed on the title page as having assisted the named author, Sarah Corbin Robert, along with Henry M. Robert III and William J. Evans. The work was republished in 1980 and once again title page credit was given to Cleary, Robert III, and Evans. The most recent edition was published in 1990. The title page for this edition was virtually identical to the 1970 and 1980 versions with the most notable change being the omission of Dr. Cleary's name. Upon learning of the omission, Dr. Cleary initiated this lawsuit. . . .

Many of the facts underlying this litigation are undisputed. Currently in its ninth edition, *Robert's Rules of Order* is one of the leading sources of parliamentary law in the United States. *Robert's Rules* was first published in 1876 by General Henry Martyn Robert; he has been listed as the author of every edition of *Robert's Rules* since. After General Robert's death, members of the Robert family maintained ultimate authority over any changes. Robert's Rules Association, successor-in-interest to General Robert's rights, owns the copyright to each edition.

In 1960, Sarah Corbin Robert, General Robert's daughter-in-law, began working on what was to become the 1970 edition of *Robert's Rules*. Sarah Robert's son, Henry M. Robert III, and William J. Evans became involved in the writing and editing of the 1970 edition. In 1961, Dr. James W. Cleary was retained by Scott, Foresman to provide a critique of the previous edition of *Robert's Rules*, and in 1965, Cleary was retained as Advisory Editor to the revision.

Curtis Johnson, an employee of Scott, Foresman, testified at his deposition that prior to entering into the contract, Scott, Foresman had orally agreed to give title credit to Cleary. Johnson stated that, in light of the low royalty rate, "right from the start [name credit] was the inducement that was supposed to persuade Dr. Cleary to do the work." . . . Johnson also testified that, in fact, he did offer Cleary title credit. Most relevant to this appeal is a letter dated May 19, 1965, and addressed to Cleary, in which Johnson discusses the proposed royalty terms at some length and concludes, "We will, of course, appropriately credit you in the new edition, as well." . . .

Subsequently, however, on September 3, 1965, Cleary entered into an agreement with Scott, Foresman concerning his role in the revision. Cleary agreed to validate the then-existing copy for the 1970 edition, to compile and complete copy for three chapters, and to write new copy for two chapters. In return, Scott, Foresman agreed to pay Cleary a royalty of three-quarters of one percent of the net receipts from sales of the 1970 edition, with Scott, Foresman reserving the right to adjust the royalty rate with respect to future editions of the book to

reflect the amount of original work prepared by Cleary that remained in any subsequent edition. The contract specified that Cleary was retained on a work for hire basis and that the heirs of General Robert would retain all rights in *Robert's Rules* and in the copyright. The contract did not mention giving Cleary any title credit for the 1970 edition or any subsequent editions.

Cleary began working on the revision. According to Cleary, Sarah Robert had completed a mere outline of the work and Robert III was not producing usable material. Therefore, Cleary wrote a large amount of the new edition, which was subsequently edited by Sarah Robert and, because of her rapidly declining health, by Robert III. Cleary testified that he had contributed approximately forty percent of the final edition, Robert III had contributed forty percent, and Evans had contributed twenty percent.

In 1980, Scott, Foresman published a new edition, with minor revisions. Scott, Foresman provided Cleary with an opportunity to review the changes; none of Cleary's proposed changes were incorporated into the new edition. Cleary continued to receive title credit and three-quarters of one percent royalties for sales of the 1980 edition.

The most recent edition, referred to as the 1990 edition, was published in late 1989. It is undisputed that Cleary did not participate in the preparation of the 1990 edition. After the 1990 edition was published, Cleary learned that his name had been deleted from the title page, although he was still acknowledged in the introduction. Sarah Corbin Robert was still listed as the author, although she had died in 1972, and Robert III and Evans were listed as providing assistance. . . .

Dr. Cleary has continued to receive three-quarters of one percent royalties on sales of the 1990 edition. As part of an attempted settlement of this case, the title page of subsequent printings of the 1990 edition after the first printing listed Cleary as providing assistance just as in the 1980 version.

II. Discussion

. . . . Cleary claims that Scott, Foresman breached its contract when it failed to give him title credit in the 1990 edition of *Robert's Rules*. A viewing of the evidence in the light most favorable to Cleary makes it apparent that, prior to entering into the contract, Scott, Foresman had agreed to give Cleary title page credit. The contract itself, however, does not contain an attribution clause and does not mention named credit.

The parol evidence rule prohibits introduction of extrinsic evidence of a prior or contemporaneous agreement which would vary or contradict the clear and unambiguous language in a contract. . . . Notwithstanding, if "the language contained in the contract is ambiguous or silent as to essential terms then oral testimony may be properly admitted into evidence." . . . Courts will examine all the surrounding facts and circumstances of the case to determine if the contract was intended to be the complete and final expression of the parties' intent. . . .

Cleary claims that the contract was not a complete and final expression of the parties' intent because the parties intended to give Cleary title credit in the 1970 edition and subsequent reprintings. We note initially that, even if the attribution clause, though not included in the written agreement, could somehow be deemed a material term of the 1965 contract, neither the 1980 nor the 1990 editions were covered by that contract. Cleary apparently attempts to circumvent this hurdle by arguing that the contract ambiguously refers to the term "Work" by not specifying even the general contents of the work, but this argument is undermined

by the clear language of the contract. The contract specifically defines the nature of the work, prescribes the number of chapters that Cleary was to produce, and provides for dates of completion. Further, the contract provides, “On any revised edition of the Work, the Publisher shall consider a further retention of the Advisory Editor’s services.” In using the term “Work,” Scott, Foresman clearly was referring exclusively to the work-in-progress which became the 1970 edition of *Robert’s Rules*.

Notwithstanding, even if we were to conclude that the terms of the 1965 contract applied to the 1980 edition and subsequent editions, we are unpersuaded by Cleary’s attempts to prove that the contract was ambiguous as to a material term. Oral testimony may be introduced if the language in the contract is silent as to a material term. . . . Yet, according to Cleary’s own testimony, he knew there was no provision granting him credit . . . , yet he signed the contract anyway. At his deposition, Cleary testified that at the time the contract was signed “it was not important that there be name credit, but it became in my mind more and more important as my involvement grew and grew by considerable degrees over the period of the ensuing years.” . . . Even viewed in the light most favorable to Cleary, these facts indicate that he did not consider an attribution clause an essential term of the contract. Cleary was aware that the term was not in the contract and did not consider it important at the time. Therefore, oral testimony may not be used to introduce that term into the contract.

Cleary also argues that the parties implicitly intended to grant him a right to name credit. This hidden meaning is established, Cleary asserts, by the fact that in prior editions, *Robert’s Rules* was published with title credit given to contributing authors. We find this argument unpersuasive. The contract does not mention name credit in any manner, and thus is not ambiguous on its face. In addition, we have already noted that under a valid work for hire arrangement, a publisher is under no obligation to provide attribution, unless such a right has been specifically reserved in the contract. *Vargas v. Esquire Inc.*, 164 F.2d 522, 526 (7th Cir. 1947). In its contract, Scott, Foresman included a work for hire clause and did not include an attribution clause. From this, it is fair to conclude that Scott, Foresman did not intend to contract to give Cleary name credit. To now introduce an attribution clause would be to introduce a term which would contradict the clear language of the contract.

Finally, Cleary argues that the defendant’s subsequent acts of attributing authorship to Cleary in the 1970 and 1980 editions evince a contractual understanding that name credit would be provided. Subsequent conduct of the parties may be considered when it does not contradict the plain meaning of the contract. . . . Because Cleary relinquished authorship as well as copyright ownership when he signed the work for hire provision, subsequent conduct and circumstances indicating an intent to provide attribution are in direct conflict with the work for hire agreement and cannot be considered. Evidence of Scott, Foresman’s subsequent acts of attribution only indicates that they were complying with their previous representation that they would include his name even though they were under no contractual duty to do so. At the time of contracting, Cleary could have insisted that the agreement contain an attribution clause for the 1970 and subsequent editions; he then could have enforced that contractual right had Scott, Foresman failed to give him name credit.

Accordingly, because the plaintiff seeks to introduce extrinsic evidence which would vary the unambiguous language of the contract, we conclude that the trial

court properly granted summary judgment to the defendants with respect to Cleary's breach of contract claims.

**Gold Leaf Group, Ltd. v. Stigwood Group, Ltd., Sup. Ct. N.Y. County,
Case No. 11768/78 (October 4, 1978)**

RUBIN, J.

[After years of relentless concertizing but meager record sales, Peter Frampton was propelled to the forefront of the record world when his live album, "Frampton Comes Alive," sold some 12 million copies. On the basis of his new celebrity status, Frampton was signed to appear in the film version of *Sgt. Pepper's Lonely Hearts Club Band*. The Bee Gees, a very successful group for many years but hardly of the first rank, were also engaged to appear in the film. Obviously, Frampton was entitled to—and secured a promise of—first billing. Between the time the two artists were signed and the time the picture was to be released, two phenomena occurred: Frampton's record sales took a precipitous nosedive, while the Bee Gees soared to the top of the heap with "Saturday Night Fever," the soundtrack that sold some 27 million copies. The producer of the film had a change of heart concerning billing. This led to injunctive proceedings, and to the following unpublished opinion of Special Term.—Ed.]

Plaintiff [Peter Frampton's loan-out corporation] moves this court for an injunction, pendente lite, restraining defendant . . . from violating the written contractual "billing" rights of Peter Frampton (Frampton). . . .

The film took approximately two years to make at a cost of over \$12,000,000. A significant part of the production package is an "original motion picture soundtrack" record album. The total cost of the project, which encompasses the film and record and includes promotion, now exceeds \$20,000,000.

Plaintiff seeks a temporary injunction to prevent defendants from advertising the movie and the record in a manner according . . . "the Bee Gees" the same billing credit as Frampton. While the film itself credits Frampton "top billing," the advertising as to the film and record accords "the Bee Gees" billing alongside and to the right of Frampton. Frampton claims that he has the right to have his name appear above "the Bee Gees" in connection with 1) the billing of the film, 2) the advertising of the film, 3) the art work on the cover of the record, 4) the advertising for the record and, 5) merchandising and subsidiary rights in connection with the film.

It appears that the billing provision of a contract is material in that it is not just a matter of status or prestige, but serves to protect and enhance the future marketability and commercial value of a star performer. . . . [A]n agreement was signed wherein in Paragraph 4 the credit status of Frampton is set forth as follows: "Artist shall receive the sole star billing above the title of the photoplay in a size of type one hundred per cent of the credits of any other person." In a subsequent modification, it was agreed that the Bee Gees name could be billed above the title, but below that of Frampton. . . .

The language of the agreement, even as modified by the parties, gives Frampton sole star billing in the photoplay. It is further apparent that plaintiff considered Frampton's star billing to be of prime importance and would have withheld its consent to the agreement had its artist not been so recognized.

Defendant attempts to convince the court that billing alongside but to the left of the Bee Gees is recognized as "first star billing." However, the agreement

gives to Frampton “sole star billing” and plaintiff is entitled to a fulfillment of its contractual obligations. The court is aware of defendants’ desire to accord its clients a greater star status as the result of their sudden surge of popularity originating from the motion picture *Saturday Night Fever*. However, in view of the contractual obligations, there is sufficient showing to enjoin defendant from billing or advertising the Bee Gees, other than on a line below Frampton, and in a size, type and prominence no greater than his in any billing or advertising concerning the [film]. . . .

The motion addressed to the record [album] presents a different problem. While it may have been the intention of the plaintiff to have paragraph 4 of the agreement apply to the soundtrack recording, the agreement is not clear and convincing in this respect. Another agreement dated January 21, 1977, between defendants’ recording subsidiary, RSO Records, Inc. and Frampton’s [record company], A & M Records, Inc. provides that Frampton’s name be billed “in the same manner as the names of other artists are utilized in connection with said album.” Furthermore, an agreement signed March 13, 1978, concerning worldwide merchandising and subsidiary rights is silent as to billing and advertising. There is, also, a question of whether plaintiff acquiesced in the design of the record album jacket. The proof required of defendants, for the purpose of this motion, is merely that they need only raise doubts of that likelihood that plaintiff will ultimately succeed in the action. It is incumbent upon plaintiff to come forth with clear and convincing evidence dispelling such doubts. As to the soundtrack recording, this the plaintiff has failed to do. . . .

Accordingly, the motion for an injunction *pendente lite* is granted as to the motion picture and denied as to the soundtrack recording. . . .

**Tamarind Lithography Workshop, Inc. v. Sanders, 143 Cal.App. 3d
571, 193 Cal.Rptr. 409 (1983)**

STEPHENS, J.

The essence of this appeal concerns the question of whether an award of damages is an adequate remedy at law in lieu of specific performance for the breach of an agreement to give screen credits. Our saga traces its origin to March of 1969, at which time appellant, and cross-complainant below, Terry Sanders (hereinafter Sanders or appellant), agreed in writing to write, direct and produce a motion picture on the subject of lithography for respondent, Tamarind Lithography Workshop, Inc. (hereinafter referred to as Tamarind or respondent).

Pursuant to the terms of the agreement, the film was shot during the summer of 1969, wherein Sanders directed the film according to an outline/treatment of his authorship, and acted as production manager by personally hiring and supervising personnel comprising the film crew. Additionally, Sanders exercised both artistic control over the mixing of the sound track and overall editing of the picture.

After completion, the film, now titled “Four Stones for Kanemitsu,” was screened by Tamarind at its 10th anniversary celebration on April 28, 1970. Thereafter, a dispute arose between the parties concerning their respective rights and obligations under the original 1969 agreement. Litigation ensued and in January 1973 the matter went to trial. Prior to the entry of judgment, the parties entered into a written settlement agreement, which became the premises for the

instant action. Specifically, this April 30, 1973, agreement provided that Sanders would be entitled to a screen credit entitled “A Film by Terry Sanders.”

Tamarind did not comply with its expressed obligation pursuant to that agreement, in that it failed to include Sanders’ screen credits in the prints it distributed. As a result a situation developed wherein Tamarind and codefendant Wayne filed suit for declaratory relief, damages due to breach of contract, emotional distress, defamation and fraud. Sanders cross-complained, seeking damages for Tamarind’s breach of contract, declaratory relief, specific performance of the contract to give Sanders screen credits, and defamation. Both causes were consolidated and brought to trial on May 31, 1977. A jury was impaneled for purposes of determining damage issues and decided that Tamarind had breached the agreement and awarded Sanders \$25,000 in damages.

The remaining claims for declaratory and injunctive relief were tried by the court. The court made findings that Tamarind had sole ownership rights in the film, that “both June Wayne and Terry Sanders were each creative producers of the film, that Sanders shall have the right to modify the prints in his personal possession to include his credits.” All other prayers for relief were denied.

It is the denial of appellant’s request for specific performance upon which appellant predicates this appeal.

Since neither party is contesting the sufficiency of Sanders’ \$25,000 jury award for damages, the central issue thereupon becomes whether that award is necessarily preclusive of additional relief in the form of specific performance, i.e., that Sanders receive credit on all copies of the film. Alternately expressed, the issue is whether the jury’s damage award adequately compensates Sanders, not only for injuries sustained as a result of the prior exhibitions of the film without Sanders’ credits, but also for future injuries which may be incurred as a result of any future exhibitions of the film without his credit. Commensurate with our discussion below, we find that the damages awarded raise an issue that justifies a judgment for specific performance. Accordingly, we reverse the judgment of the lower court and direct it to award appellant the injunctive relief he now seeks.

Our first inquiry deals with the scope of the jury’s \$25,000 damage award. More specifically, we are concerned with whether or not this award compensates Sanders not only for past or preexisting injuries, but also for future injury (or injuries) as well.

Indeed, it is possible to categorize respondent’s breach of promise to provide screen credits as a single failure to act from which all of Sanders’ injuries were caused. However, it is also plausible that damages awarded Sanders were for harms already sustained at the date of trial, and did not contemplate injury as a result of future exhibitions of the film by respondent, without appropriate credit to Sanders.

Although this was a jury trial, there are findings of facts and conclusions of law necessitated by certain legal issues that were decided by the court. Finding of fact No. 12 states:

“By its verdict the jury concluded that Terry Sanders and the Terry Sanders Company are entitled to the sum of \$25,000.00 in damages for all damages suffered by them arising from Tamarind’s breach of the April 30th agreement.” The exact wording of this finding was also used in conclusion of law No. 1. Sanders argues that use of the word “suffered” in the past tense is positive evidence that the jury assessed damages only for breach of the contract up to time of trial and

did not award possible future damages that might be suffered if the film was subsequently exhibited without the appropriate credit. Tamarind, on the other hand, contends that the jury was instructed that if a breach occurred the award would be for all damages past and future arising from the breach. The jury was instructed: “For the breach of a contract, the measure of damages is the amount which will compensate the party aggrieved, for the economic loss, directly and proximately caused by the breach, or which, in the ordinary course of things, would be likely to result therefrom” and “. . . economic benefits including enhancement of one’s professional reputation resulting in increased earnings as a result of screen credit, if their loss is a direct and natural consequence of the breach, may be recovered for breach of an agreement that provides for screen credit. Economic benefits lost through breach of contract may be estimated, and where the plaintiff [Tamarind], by its breach of the contract, has given rise to the difficulty of proving the amount of loss of such economic benefit, it is proper to require of the defendant [Sanders] only that he show the amount of damages with reasonable certainty and to resolve uncertainty as to the amount of economic benefit against the plaintiff [Tamarind].”

The trial court agreed with Tamarind’s position and refused to grant the injunction because it was satisfied that the jury had awarded Sanders all the damages he was entitled to including past and possible future damages. The record does not satisfactorily resolve the issue. However, this fact is not fatal to this appeal because, as we shall explain, specific performance as requested by Sanders will solve the problem.

The availability of the remedy of specific performance is premised upon well established requisites. These requisites include: A showing by plaintiff of (1) the inadequacy of his legal remedy; (2) an underlying contract that is both reasonable and supported by adequate consideration; (3) the existence of a mutuality of remedies; (4) contractual terms which are sufficiently definite to enable the court to know what it is to enforce; and (5) a substantial similarity of the requested performance to that promised in the contract. . . .

It is manifest that the legal remedies available to Sanders for harm resulting from the future exhibition of the film are inadequate as a matter of law. The primary reasons are twofold: (1) that an accurate assessment of damages would be far too difficult and require much speculation, and (2) that any future exhibitions might be deemed to be a continuous breach of contract and thereby create the danger of an untold number of lawsuits.

There is no doubt that the exhibition of a film, which is favorably received by its critics and the public at large, can result in valuable advertising or publicity for the artists responsible for that film’s making. Likewise, it is unquestionable that the nonappearance of an artist’s name or likeness in the form of screen credit on a successful film can result in a loss of that valuable publicity. However, whether that loss of publicity is measurable dollar wise is quite another matter.

By its very nature, public acclaim is unique and very difficult, if not sometimes impossible, to quantify in monetary terms. Indeed, courts confronted with the dilemma of estimating damages in this area have been less than uniform in their disposition of same. Nevertheless, it is clear that any award of damages for the loss of publicity is contingent upon those damages being reasonably certain, specific, and unspeculative. . . .

The varied disposition of claims for breach of promise to provide screen credits encompasses two schools of thought. On the one hand, there is the view that

damages can be ascertained (to within a reasonable degree of certainty) if the trier of fact is given sufficient factual data. (See *Paramount Productions, Inc. v. Smith* (9th Cir. 1937) 91 F.2d 863, *cert. den.* 302 U.S. 749 [82 L.Ed. 579, 58 S.Ct. 266].) On the other hand, there is the equally strong stance that although damages resulting from a loss of screen credits might be identifiable, they are far too imponderable and ethereal to define in terms of a monetary award. (See *Poe v. Michael Todd Co.* (S.D.N.Y. 1957) 151 F.Supp. 801.) If these two views can be reconciled, it would only be by an independent examination of each case on its particular set of facts.

In *Paramount Productions, Inc. v. Smith*, *supra*, 91 F.2d 863, 866–867, the court was provided with evidence from which the “. . . jury might easily compute the advertising value of the screen credit.” (*Id.*, at p. 867.) The particular evidence presented included the earnings the plaintiff/ writer received for his work on a previous film in which he did not contract for screen credits. This evidence was in turn easily compared with earnings that the writer had received for work in which screen credits were provided as contracted. Moreover, evidence of that artist’s salary, prior to his receipt of credit for a play when compared with earnings received subsequent to his actually receiving credit, was “. . . if believed, likewise sufficient as a gauge for the measure of damages.” (*Id.*, at p. 867.)

In another case dealing with a request for damages for failure to provide contracted-for screen credits, the court in *Zorich v. Petroff* (1957) 152 Cal.App. 2d 806 [313 P.2d 118] demonstrated an equal awareness of the principle. The court emphasized “. . . that there was no evidence from which the [trial] court could have placed a value upon the screen credit to be given plaintiff as an associate producer. (Civ. Code, § 3301.)” (*Id.*, at p. 811.) Incident to this fact, the court went on to surmise that because the motion picture which was at the root of the litigation was an admitted financial failure, screen credit, if given, “. . . could reasonably have been regarded as a detriment to him.” (*Id.*, at p. 811.)

At the other extreme, it has been held that failure to give an artist screen credit would constitute irreparable injury. In *Poe v. Michael Todd Co.*, *supra*, 151 F.Supp. 801, the New York district court was similarly faced with an author’s claim that his contractual right to screen credit was violated. The court held: “Not only would money damages be difficult to establish, but at best they would hardly compensate for the real injury done. A writer’s reputation, which would be greatly enhanced by public credit for authorship of an outstanding picture, is his stock in trade, it is clear that irreparable injury would follow the failure to give screen credit if in fact he is entitled to it.” (*Id.*, at p. 803.)

Notwithstanding the seemingly inflexible observation of that court as to the compensability of a breach of promise to provide screen credits, all three cases equally demonstrate that the awarding of damages must be premised upon calculations, inferences or observations that are logical. Just how logical or reasonable those inferences are regarded serves as the determining factor. Accordingly, where the jury in the matter sub judice was fully apprised of the favorable recognition Sanders’ film received from the Academy of Motion Picture Arts and Sciences, the Los Angeles International Film Festival, and public television, and further, where they were made privy to an assessment of the value of said exposure by three experts, it is reasonable for the jury to award monetary damages for that ascertainable loss of publicity. However, pecuniary compensation for Sanders’ future harm is not a fully adequate remedy. (See *Rest., Contracts*, § 361, p. 648.)

We return to the remaining requisites for Sanders' entitlement to specific performance. The need for our finding the contract to be reasonable and supported by adequate consideration is obviated by the jury's determination of respondent's breach of that contract. The requisite of mutuality of remedy has been satisfied in that Sanders had fully performed his obligations pursuant to the agreement (i.e., release of all claims of copyright to the film and dismissal of his then pending action against respondents). (See Civ. Code, § 3386.) Similarly, we find the terms of the agreement sufficiently definite to permit enforcement of the respondent's performance as promised.

In the present case it should be obvious that specific performance through injunctive relief can remedy the dilemma posed by the somewhat ambiguous jury verdict. The injunction disposes of the problem of future damages, in that full compliance by Tamarind moots the issue. Of course, violation of the injunction by Tamarind would raise new problems, but the court has numerous options for dealing with the situation and should choose the one best suited to the particular violation.

In conclusion, the record shows that the appellant is entitled to relief consisting of the damages recovered, and an injunction against future injury. . . .

NOTE

A union member's right to credit can be decided pursuant to the union's internal procedures. *Ferguson v. Writers Guild of America, West, Inc.*, 226 Cal.App. 3d 1382, 277 Cal.Rptr. 450 (1991) involved a claim by Ferguson that his credit for "Beverly Hills Cop II" had been improperly diluted. The WGA arbitration panel awarded the following credits: "Screenplay by Larry Ferguson and Warren Skaaren; Story by Eddie Murphy & Robert D. Wachs." He asked the court to issue a peremptory writ of mandate requiring the Writers Guild to set aside its credit determination and give Ferguson sole screenplay credit and sole story credit, which was denied, the denial being affirmed by the Court of Appeal. (The "screenplay" is "the final script (as represented on the screen) with individual scenes and full dialogue, together with such prior treatment, basic adaptation, continuity, scenario, dialogue, and added dialogue as shall be used in and represent substantial contributions to the final script" and a "story" is "all writing representing a contribution distinct from screenplay and consisting of basic narrative, idea, theme or outline indicating character development and action.")

Writing credits are determined under the WGA's basic agreement with the Alliance of Motion Picture and Television Producers, the producers' trade organization as well as the WGA's credits manual (to which all members adhere by joining the WGA.) It is very common for several (even many) writers to work on the same project at different stages. When the project is completed, WGA notifies all the writers of the credits proposed by the studio. Any or all of the writers may request arbitration under the WGA credit manual. Arbitration is conducted by a panel of three WGA members, who are unknown to the applicant or to each other.

Eligible arbitrators are WGA members "with credit arbitration experience or with at least three screenplay credits of their own." Each party "can peremptorily disqualify a reasonable number of persons from the list. From the remaining potential arbitrators, the secretary selects three, endeavoring to select individuals experienced in the type of writing involved in the particular case [and] delivers to the three arbitrators all script, outline, and story material prepared or used in the creation of the screenplay, together with source material (writings upon which the screenplay or story is based) [as well as the production company's statement of tentative credits]. . . . [E]ach participant in the credit arbitration may examine them to assure the inclusion of everything he or she has written. Any dispute over the "authenticity, identification, sequence, authorship or completeness" of literary

material to be included is resolved by a special three-member committee, which conducts for that purpose a prearbitration hearing, at which all affected writers may present testimony and other evidence.” The contending writers may also submit confidential statements to the WGA, which turns them over to the arbitrators. . . . The three arbitrators hold no hearing, and they deliberate independently of each other. Indeed, each [normally] remains unaware of the identity of the other two . . . Each arbitrator notifies the secretary of his or her determination. The secretary then informs the parties of the decision of the majority of the arbitrators.” A dissatisfied writer may ask that the determination be put before a “policy review board” drawn from the WGA’s credits committee, but the board’s function is “solely to detect any substantial deviation from the policy of the Writers Guild or from the procedure set forth in the credits manual.” If such deviation is found, the board can “direct the arbitration committee to reconsider the case or to order a fresh arbitration by a new triumvirate.” It cannot “reverse the decision of an arbitration committee in matters of judgment. A decision of the policy review board approving a credit determination is final.”

The court agreed with the WGA that under the AMPTP basic agreement and the WGA credits manual, “disputes over writing credits for feature-length photo-plays are nonjusticiable.” The WGA membership “have agreed among themselves (by approving the credits manual) and with the producers’ association (by entering into schedule A of the basic agreement) . . . that the credit-determination process can be handled both more skillfully, more expeditiously, and more economically by Writers Guild arbitration committees than by courts. The finality provisions of schedule A and the credits manual, quoted earlier, demonstrate the Writers Guild membership’s intention that credit disputes be resolved without resort to ruinously expensive litigation. The scope of judicial review in a particular case, then, is limited to a determination whether there has been a material breach of the terms of the credits manual, which binds the Writers Guild as well as its members . . . [a] limited scope of review is similar to that employed in judicial review of more traditional arbitrations. There the court does not review the merits of the arbitrators’ award; it examines only whether the parties in fact agreed to submit their controversy to arbitration, whether the procedures employed deprived the objecting party of a fair opportunity to be heard, and whether the arbitrators exceeded their powers. (See Code Civ. Proc., §§ 1286–1286.8. . . .)

With respect to Ferguson’s claims of procedural irregularities, “we bear in mind that the procedures employed in the present arbitration have already been reviewed for correctness by the Writers Guild’s own policy review board. The court accords considerable deference to the decision of the policy review board, because of its members’ expertise in the interpretation and application of: the basic agreement and the credits manual.”

The court was not receptive to Ferguson’s claim that he was entitled to know the identity of the arbitrators. The WGA rules were well-known and of long standing, and its practice was “supported by important and legitimate considerations, including the necessity that arbitrators be entirely freed from both real and perceived dangers of pressure, retaliation, and litigation. . . . While it is unusual to have an arbitration procedure in which the parties cannot appear in person before the arbitrators and cannot learn the arbitrators’ identities, discovery of the names of the arbitrators in a Writers Guild credit arbitration could serve no legitimate function. Ferguson apparently wishes to ask the arbitrators, *inter alia*, to explain and justify their conclusions regarding the various writers’ contributions to the final screenplay. Even when an arbitration is conducted under more familiar rules, though, such as the commercial arbitration rules of the American Arbitration Association, the losing party is not permitted to conduct an inquisition into the arbitrators’ thought processes in reaching their award. . . .”

2.5.2 By Statute/Common Law

Though credits often are provided for by contract, that is not always the case. When credit disputes arise where no contract provisions exist, such disputes are resolved by referring to principles of statutory or common law.

Usually, such disputes have arisen because an author, artist or performer has been denied a credit he or she wants. *Vargas v. Esquire*, *Smith v. Montoro* and *Lamothe v. Atlantic Recording* all are examples of such cases and are reproduced below. *Vargas* shows that in the absence of a contract, the general rule is that there is no statutory or common law right to claim credit; though that case was decided almost a half-century ago, the case discussed in the note that follows *Vargas* shows that it is still good law. There is, however, an exception to the general rule that arises when credits are not simply omitted but are affirmatively misrepresented. The *Smith*, *Lamothe* and *Cleary* cases that follow all deal with credit misrepresentation.

One further development of significance has occurred since *Vargas* was decided: the enactment of the Visual Artists Rights Act of 1990 [codified at 17 U.S.C. §§ 101 (definition of “work of visual art”) and 106A]. It is applicable only in a very narrow and specific class of cases—those involving certain works of visual art—but those are important and often valuable works, and that Act is excerpted below as well.

In a surprising number of cases, credit disputes also have arisen where credit was given to someone who did not want it. The *Shostakovich*, *Ken Follett* and *Stephen King* cases below are cases of this type.

2.5.2.1 Right to Claim Credit

Vargas v. Esquire, Inc., 164 F.2d 522 (7th Cir. 1947)

MAJOR, CIRCUIT JUDGE

This appeal is from an order, entered December 17, 1946, dismissing plaintiff’s complaint and supplemental complaint for failure to state a cause of action.

Plaintiff, an artist, sued to enjoin the reproduction of certain pictures made by him and delivered to defendant, a publisher, upon the ground that the same were wrongfully used in that they were published without the signature of plaintiff and without being accredited to him. Plaintiff also sued for damages on account of such publication alleged to violate his contract and his property right in the pictures and unfairly to represent them as the work of others. Defendant moved to dismiss on the ground that the plaintiff at the time of publication had no property right in the pictures and no right to control or to direct their disposition.

The facts alleged by the complainant center about and relate largely to two contracts of which the plaintiff and defendant were parties. The complaint sets forth that in June, 1940, the parties entered into a contract, “Exhibit A,” attached to and made a part of the complaint, wherein and whereby plaintiff was employed as an artist for three years, to produce art work for use by defendant in its publication and also for use in publications of a commercial nature, for a certain monthly compensation and in addition thereto a certain percent of the proceeds realized by defendant for work of a commercial nature. Under this contract plaintiff made and delivered certain pictures, one of which was reproduced each month, beginning October 1, 1940, in the magazine *Esquire*, published by defendant. Plaintiff also made and delivered twelve pictures each year, beginning in the fall of 1940, for a calendar published and sold the following year by defendant.

At first the pictures furnished bore plaintiff’s name or signature, “Vargas,” and

they were reproduced and published with his name thereon. Later, by agreement of the parties, the name "Vargas" was changed to "Varga." Thereafter, the pictures made by plaintiff and published by defendant were called "Varga Girls," and the name of the plaintiff appearing thereon was "A. Varga." The name was used only in connection with pictures made by plaintiff and was thus used by the defendant until March 1, 1946. No name was on the pictures when they were furnished by plaintiff to the defendant.

The contract "Exhibit A," expired on June 30, 1943, but plaintiff continued to furnish pictures to defendant without a contract, which were published in the same manner as when the contract was in force, until May 25, 1945, when the parties entered into a second contract, "Exhibit B," attached to and made a part of the complaint.

On or about January 14, 1946, plaintiff notified the defendant that he was no longer bound by the contract, "Exhibit B," and refused to longer furnish it with pictures. Defendant at that time had twenty pictures made by plaintiff which had not as yet been published. On February 11, 1946, plaintiff caused to be instituted in the United States District Court an action by which he sought a cancellation of such contract. On May 20, 1946, the court entered its decree, allowing the relief sought by the plaintiff, finding among other things that the contract had been fraudulently obtained by defendant and ordering the same cancelled and set aside as of January 10, 1946.

It was alleged that by reason of such publication by the defendant persons seeing said magazine came to know the work of the plaintiff and that as a result plaintiff became known to millions of persons, acquired a world-wide reputation and his name, "A. Varga," likewise became known throughout the world.

The complaint alleged that on March 1, 1946, the defendant published its magazine, *Esquire*, which contained a two-page reproduction of a picture made by the plaintiff. At the top thereof instead of the words, "The Varga Girl," appeared the words, "The *Esquire* Girl." The reproduction did not bear plaintiff's signature, "A. Varga," or any other signature. The supplemental complaint made a similar allegation as to a picture produced by plaintiff appearing in *Esquire* for the month of May, 1946. It was also alleged in the supplemental complaint that on October 1, 1946, defendant published a certain calendar enclosed in an outside envelope on which appeared the words and figures, "The 1947 *Esquire* Calendar 35 Copyright *Esquire* Inc. 1946 Printed in U.S.A." On the envelope was a reproduction of a picture painted for defendant by plaintiff. The calendar contained in said envelope was composed of the reproduction of twelve pictures of plaintiff made and intended to be used for the *Varga Esquire* 1947 calendar. Each of the said pictures bore the words, "The *Esquire* Girl Calendar." None of such pictures carried plaintiff's name or any name, word or legend indicating them to be the work of plaintiff or any other person.

All the pictures used by the defendant both in its magazine and in connection with its 1947 calendar were furnished by plaintiff to the defendant in accordance with the terms of "Exhibit B," prior to the time that plaintiff gave notice of its cancellation. All of such pictures had been paid for by the defendant in accordance with the terms of the contract, and as to those used in defendant's magazine, plaintiff had no further monetary interest. As to those used in connection with defendant's calendar, plaintiff was entitled to a share of the proceeds derived from the sale thereof. There is no allegation, however, and no claim that defen-

dant had refused to pay or is likely to refuse to pay to plaintiff his share of such proceeds.

It was further alleged that there was a duty upon the defendant to refrain from publishing reproductions of plaintiff's pictures without their bearing his signature and giving him due credit; that defendant, in violation of its duty in this respect, published plaintiff's work without using his name and without giving him credit therefor, and that the same constituted a misrepresentation in that it represented the pictures to be the work of another and not that of plaintiff.

"Exhibit A" (the first contract) expired long prior to the inception of the instant controversy and we think it is of little consequence insofar as it affects the issues for decision. The rights of the parties must be determined from "Exhibit B" (the second contract), which was in effect at the time that plaintiff furnished the pictures to defendant which were reproduced by it subsequent to the time that plaintiff gave notice of cancellation of such contract.

In a preamble to "Exhibit B," it is stated that Vargas for approximately three years had been preparing and furnishing to Esquire drawings for use by Esquire in connection with its publications and other printed merchandise:

"In connection with certain of these drawings, the name 'Varga,' 'Varga Girl,' and similar names have been given national publicity by Esquire and have become well known to the public. Vargas acknowledges that the success of the drawings has been due primarily to the guidance which Esquire has given him and to the publicity given to them by Esquire's publications. . . ."

The contract, after expressing the desire of the parties to enter into an agreement defining their mutual rights and obligations, contains a paragraph around which this controversy revolves and which we think is determinative of the issues involved. It provides:

"Vargas agrees for a period of ten years and six months, beginning January 1, 1944, as an independent contractor, to supply Esquire with not less than twenty-six (26) drawings during each six-months' period. . . . The drawings so furnished, and also the name 'Varga,' 'Varga Girl,' 'Varga, Esq.,' and any and all other names, designs or material used in connection therewith, shall forever belong exclusively to Esquire, and Esquire shall have all rights with respect thereto, including (without limiting the generality of the foregoing) the right to use, lease, sell or otherwise dispose of the same as it shall see fit, and all radio, motion picture and reprint rights. Esquire shall also have the right to copyright any of said drawings, names, designs or material or take any other action it shall deem advisable for the purpose of protecting its rights therein."

Plaintiff's principal contention is that the publication of the reproductions of paintings produced by him, without his name appearing thereon, without credit to him and without any name appearing thereon, violated an implied agreement that the defendant would not do so. Plaintiff concedes that the contract defines defendant's rights in the pictures, but in his brief argues "that despite its broad generality, despite the fact that the defendant took all rights in the pictures, it is bound by the implied agreement not to publish them in the manner complained of."

Plaintiff cites and relies upon a number of cases in support of this alleged implied agreement. *Uproar Co. v. National Broadcasting Co.*, 1st Cir., 81 F.2d 373; *Kirke La Shelle Co. v. Armstrong Co.*, 263 N.Y. 79, 188 N.E. 163; *Manners v. Morosco*, 252 U.S. 317, 40 S.Ct. 335, 64 L.Ed 590. We have read these cases, and without attempting to discuss them in detail, we think they are inapplicable

to the instant situation. In each of them an author signed a contract or license which conferred on the other party certain limited rights in a literary reproduction and reserved for the author the balance of the rights therein. The holding in each of these cases is to the effect that where certain of the rights to a literary composition were conferred and other rights retained, it would be implied that the author could not use the rights retained in such a way as to destroy or materially injure the rights conferred. Such a contractual situation is in marked contrast to that of the instant case where the plaintiff by plain and unambiguous language completely divested himself of every vestige of title and ownership of the pictures, as well as the right to their possession, control and use. The language by which the extent of the grant is to be measured, "shall forever belong exclusively to Esquire, and Esquire shall have all rights with respect thereto, including (without limiting the generality of the foregoing) the right to use, lease, sell or otherwise dispose of the same as it shall see fit," would appear to leave no room for a contention that any right, claim or interest in the pictures remained in the plaintiff after he had sold and delivered them to the defendant. Not only did plaintiff by the contract divest himself of all title, claim and interest in such drawings and designs, but also in the names "Varga," "Varga Girl," "Varga Esquire," when used in connection therewith.

Of the many cases where it has been sought to engraft an implied condition upon the terms of a written instrument, we like the rule announced in *Domeyer v. O'Connell*, 364 Ill. 467, at page 470, 4 N.E.2d 830, 832, 108 A.L.R. 476, where the language used is pertinent to the instant situation. The court stated:

"The rules concerning the construction of contracts are so well established as to require but brief attention. The object of construction is to ascertain the intention of the parties. . . . That intention is to be determined from the language used in the instrument and not from any surmises that the parties intended certain conditions which they failed to express. Where there is no ambiguity in the language used, from that, and that alone, may the intention of the parties be gathered. . . . An implied intention is one necessarily arising from language used or a situation created by such language. If such intention does not necessarily arise, it cannot be implied. On the other hand, absence of a provision from a contract is evidence of an intention to exclude such provision." As already shown, we think there is no ambiguity in the granting language of the contract, nor can there be an implied intention from the language thus employed of an intention of the parties of any reservation of rights in the grantor. The parties had been dealing with each other for a number of years, and the fact that no reservation was contained in the contract strongly indicates that it was intentionally omitted. Such a reservation will not be presumed; it must be expressed and clearly imposed. *Grant v. Kellogg Co.*, D.C., 58 F.Supp. 48, 51, *affirmed* 2d Cir., 154 F.2d 59.

Plaintiff advances another theory which needs little discussion. It is predicated upon the contention that there is a distinction between the economic rights of an author capable of assignment and what are called "moral rights" of the author, said to be those necessary for the protection of his honor and integrity. These so-called "moral rights," so we are informed, are recognized by the civil law of certain foreign countries. In support of this phase of his argument, plaintiff relies upon a work by Stephen P. Ladas entitled "The International Protection of Literary and Artistic Property" (page 575, et seq.). It appears, however, that the

author's discussion relied upon by plaintiff relates to the law of foreign countries. As to the United States, Ladas in the same work states (page 802):

“The conception of ‘moral rights’ of authors so fully recognized and developed in the civil law countries has not yet received acceptance in the law of the United States. No such right is referred to by legislation, court decision or writers.”

What plaintiff in reality seeks is a change in the law in this country to conform to that of certain other countries. We need not stop to inquire whether such a change, if desirable, is a matter for the legislative or judicial branch of the government; in any event, we are not disposed to make any new law in this respect.

Plaintiff's third and last contention is that the manner of reproduction by defendant of plaintiff's work was such as to constitute a misrepresentation and was unfair competition. The concurring opinion of Mr. Justice Holmes in *International News Service v. Associated Press*, 248 U.S. 215, 246, 247, 39 S.Ct. 68, 63 L.Ed. 211, 2 A.L.R. 293; and *Fisher v. Star Co.*, 231 N.Y. 414, 433, 132 N.E. 133, 136, 19 A.L.R. 937, are the only cases cited and relied upon as supporting this contention. We think that neither case affords any support for such theory. In both, the holding as to unfair competition rested on the premise that the defendants, without the consent or approval of the plaintiffs, had taken and used to their own advantage something in which the plaintiffs had a property right—more specifically, that the defendants had pirated or stolen plaintiff's property and used it in their business in competition with that of the plaintiffs. It is difficult to discern how there could be any pirating or unlawful taking of property in the instant case in view of the rights (heretofore discussed) which the plaintiff by contract conferred upon the defendant.

Plaintiff argues that the use of “Esquire Girl” as a title for the pictures was a representation that the author was someone other than the plaintiff. We do not agree with this contention. The title used was the name of the well-known and widely circulated magazine in which they were published, and we think the public would readily recognize the word “Esquire” referred to such magazine and not to the name of an artist.

More than that, as already shown, it was provided in the contract that both the pictures and the name “shall forever belong exclusively to Esquire, and Esquire shall have all rights with respect thereto, including . . . the right to use . . . or otherwise dispose of the same as it shall see fit.” This was the basis both upon which plaintiff was paid for his pictures and upon which Esquire acquired their possession and ownership. Under these circumstances, we are of the view that there was no unfair competition by the defendant in the manner of their use.

The order appealed from is affirmed.

NOTE

In *Cleary v. News Corp.*, 30 F.3d 1255 (9th Cir. 1994), a portion of which is reproduced above, the plaintiff also alleged claims under California state law for unfair competition and infliction of emotional distress. The district court granted summary judgment in favor of the defendants on those counts as well, and the Court of Appeals affirmed. The court ruled that the Ninth Circuit “has consistently held that state common law claims of unfair competition and actions pursuant to California Business and Professions Code § 17200 are ‘substantially congruent’ to claims made under the Lanham Act.” For reasons explained in the portion of *Cleary* reproduced below, the court held the plaintiff's Lanham Act claim had been properly dismissed, and thus its state law unfair competition claims had been as well. In support of his infliction of emotional distress claims, the plaintiff asserted that

Scott, Foresman had “deleted his name unilaterally and without notice to him” and that it had “failed to make a bona fide attempt to determine whether his name could be deleted at their discretion.” The court, however, ruled that the “tort of intentional infliction of emotional distress requires a showing of outrageous conduct resulting in severe emotional distress. . . . Cleary has failed to produce sufficient evidence establishing either outrageous conduct, severe distress or, for that matter, any other element of this cause of action.” Thus, the court ruled that summary judgment had been granted properly on this issue too.

Smith v. Montoro, 648 F.2d 602 (9th Cir. 1980)

PREGERSON, CIRCUIT JUDGE

This is an appeal from a judgment granting defendant’s motion to dismiss under Fed.R.Civ.P. 12(b)(6) for failure to state a federal claim. The district court held that the complaint did not allege facts sufficient to constitute a violation of section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). Appellant argues that the district court erred since the acts alleged in the complaint are the economic equivalent of “palming off,” or misuse of a trade name, thus meeting the district court’s standard for stating a claim under section 43(a). For the reasons stated below, we reverse.

Background

Paul Smith contracted to star in a film to be produced by Produzioni Atlas Cinematografica (“PAC”), an Italian film company. The contract allegedly provided that Smith would receive star billing in the screen credits and advertising for the film and that PAC would so provide in any subsequent contracts with distributors of the film. PAC then licensed defendants Edward Montoro and Film Venture International, Inc. (“FVI”) to distribute the film in this country under the name “Convoy Buddies.” Plaintiff complains, however, that Montoro and FVI removed Smith’s name and substituted the name of another actor, “Bob Spencer,” in place of Smith’s name in both the film credits and advertising material. Plaintiff alleges that, as a result of defendants’ substitution, plaintiff has been damaged in his reputation as an actor, and has lost specific employment opportunities.

The complainant sought damages under several theories, including breach of contract, “false light publicity,” violation of section 43(a) of the Lanham Act. . . . There being no diversity of citizenship, federal subject matter jurisdiction was based solely on plaintiff’s Lanham Act claim. . . .

In proceedings held on May 1, 1978, the district judge explained his “tentative view” that defendants’ motion should be granted and the complaint dismissed as “not stating a valid cause of action under the Lanham Act.” While noting “there are many diverging interpretations of the Lanham Act” and that “some courts give a broad construction to it regarding it as a remedial kind of statute,” the judge stated that “[i]t is my view . . . that the Lanham Act is limited in its scope and intent to merchandising practices in the nature of, or economically equivalent to, palming off one’s goods as those of a competitor, and/or misuse of trademarks and trade names.” According to the district court, the acts alleged in the complaint are not the economic equivalent of palming off or misuse of a trademark or trade names. The acts are more in the nature of breaches of contract or tort which are properly the subject of state law. There is certainly in this case no intent to divert a competitor’s business by misleading consumers. Plaintiff’s claim is not that his name was misused, but that it wasn’t used at all. Therefore, the

nature of the misrepresentation alleged in this case, in my view, is not within the intended scope of the statute.

As an “alternative ground” for dismissal of the Lanham Act claim, the district court indicated that “there is an issue additionally of the plaintiff’s standing to bring this suit under the Lanham Act since the plaintiff is not in any sort of competition with the defendants.” Shortly after the hearing, the court issued a minute order stating that defendants’ motion to dismiss was granted. Judgment was entered on May 5, 1978. . . .

Discussion

* * *

A. Elements of a Claim under Section 43(a)

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), forbids the use of false designations of origin and false descriptions or representations in the advertising and sale of goods and services. *See New West Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d 1194, 1198 (9th Cir. 1979). The statute provides in pertinent part as follows:

Any person who shall affix, apply, or annex, or use in connection with any goods or services . . . a false designation of origin, or any false designation or representation . . . and shall cause such goods or services to enter into commerce . . . shall be liable to a civil action . . . by way person who believes that he is or is likely to be damaged by the use of any such false designation or representation.

Appellant argues that defendants violated section 43(a) by affixing or using “a false designation or representation,” i.e., another actor’s name in place of appellant’s, in connection with the movie’s advertising and credits. Appellant claims standing under section 43(a) as a person “who believes that he is or is likely to be damaged” by the use of another actor’s name in place of his. Thus, appellant’s claim, although one of first impression, appears to fall within the express language of section 43(a).

The district court appears to have rejected appellant’s argument on the ground that, to state a claim under section 43(a), a complaint must allege merchandising practices “in the nature of, or economically equivalent to, palming off . . . and/or misuse of trademarks and trade names.”

“Palming off” or “passing off” is the selling of a good or service of one’s own creation under the name or mark of another. *See* 2 J. McCarthy, *Trademarks and Unfair Competition* § 25.1 (1973); 1 R. Callman, *Unfair Competition, Trademarks and Monopolies*, § 18.2(b)(1), at 294 (1980 Supp. to 3d ed.). Passing off may be either “express” or “implied.” Express passing off occurs when an enterprise labels goods or services with a mark identical to that of another enterprise, or otherwise expressly misrepresents that the goods originated with another enterprise. Implied passing off occurs when an enterprise uses a competitor’s advertising material, or a sample or photograph of the competitor’s product, to impliedly represent that the product it is selling was produced by the competitor. 1 R. Callman, *supra*. Such practices have consistently been held to violate both the common law of unfair competition and section 43(a) of the Lanham Act. *See id.*; 2 J. McCarthy, *supra*, § 25.1; and cases cited *infra*.

To the extent that the district court's standard for section 43(a) claims could be read as limiting such claims to cases of palming off, such a narrow rule would be contrary to established case law. As one commentator has explained, the law of unfair competition and trademarks "has progressed far beyond the old concept of fraudulent passing off, to encompass any form of competition or selling which contravenes society's current concepts of 'fairness' . . ." 2 J. McCarthy, *supra*, § 25:1. See also, e.g., *L & L White Metal Casting Corp. v. Joseph*, 387 F.Supp. 1349, 1356 (E.D.N.Y. 1975) ("The purpose of [section 43(a)] was to create a new federal cause of action for false representation of goods in commerce in order to protect persons engaged in commerce from, among other things, unfair competition, fraud and deception which had theretofore only been protected by the common law. While this section is broad enough to cover situations involving the common law 'palming off' of the defendants' products by the use of the plaintiff's photographs, it is also comprehensive enough to include other forms of misrepresentation and unfair competition not involving 'palming off.'") (citations omitted).

The district court's ruling was entirely consistent with the vast majority of section 43(a) cases, however, to the extent that it indicated that a section 43(a) claim may be based on economic practices or conduct "economically equivalent" to palming off. Such practices would include "reverse passing off," which occurs when a person removes or obliterates the original trademark, without authorization, before reselling goods produced by someone else. See "Borchard, Reverse Passing Off—Commercial Robbery or Permissible Competition?", 67 *Trademark Rep.* 1 (1977). Reverse passing off is accomplished "expressly" when the wrongdoer removes the name or trademark on another party's product and sells that product under a name chosen by the wrongdoer. See 1 R. Callman, *supra*, § 18.2(b)(1). "Implied" reverse passing off occurs when the wrongdoer simply removes or otherwise obliterates the name of the manufacturer or source and sells the product in an unbranded state. *Id.*

In the instant case, appellant argues that the defendants' alleged conduct constitutes reverse passing off and that appellant's complaint therefore stated a section 43(a) claim even under the district court's own standard. Appellees argue, however, that the protection afforded by the Lanham Act is limited to "sales of goods" and does not extend to claims that a motion picture shown to the public might contain false information as to origin.

The short answer to appellees' argument is that the Lanham Act explicitly condemns false designations or representations in connection with "any goods or services." The prohibitions of this section have been applied to motion picture representations. See, e.g., *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema Ltd.*, 467 F. Supp. 366 (S.D.N.Y.), *aff'd*, 604 F.2d 200 (2d Cir. 1979). Moreover, the names of movie actors and other performers may, under certain circumstances, be registered under the Lanham Act as service marks for entertainment services. See, e.g., *Re Carson*, 197 U.S.P.Q. (BNA) 554 (Trademark Trial & App. Bd. 1977); *Re Ames*, 160 U.S.P.Q. (BNA) 214 (Trademark Trial & App. Bd. 1966). Although appellant has not alleged that his name is registered as a service mark, registration of a trademark or service mark is not a prerequisite for recovery under section 43(a). See *New West Corp. v. NYM Co. of California, Inc.*, 595 F.2d 1194, 1198 (9th Cir. 1979) ("To recover for a violation of this section it is not necessary that a mark or trade-mark be registered. The dispositive question is whether the party has a reasonable interest to be protected against false advertising.") (citations omitted).

Appellant's allegations of "reverse passing off" are analogous to those of other complaints which have been held to state a cause of action under section 43(a). For example, in *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976), a farm equipment manufacturer used photographs of a competitor's grain trailer in its sales literature. In the photos, the competitor's labels were removed and the trailer was labeled as a product of the defendant. The court rejected the defendant-appellant's contention that the use of the photos was not a false representation prohibited by section 43(a), holding that the practice was "of the same economic nature as trademark infringement." 536 F.2d at 1216. The court also noted that "The use of another's product, misbranded to appear as that of a competitor [i.e., reverse passing off], has been repeatedly found to be 'a false designation of origin' actionable under section 43(a)." *Id.*

In *John Wright, Inc. v. Casper Corp.*, 419 F.Supp. 292 (E.D.Penn. 1976), *aff'd in relevant part sub nom. Donsco, Inc. v. Casper Corp.*, 587 F.2d 602 (3d Cir. 1978), the court stated that section 43(a) "prohibits 'reverse palming off,' i.e., conduct whereby the defendant purchases or otherwise obtains the plaintiff's goods, removes plaintiff's name and replaces it with his own." 419 F. Supp. at 325. Similarly, in *FRA S.p.A. v. SURG-O-FLEX of America, Inc.*, 415 F. Supp. 421 (S.D.N.Y. 1976), the court denied a motion to dismiss, and reaffirmed its previous grant of a preliminary injunction, based on allegations that a bandage manufacturer's former distributor violated section 43(a) by continuing to sell boxes of the manufacturer's bandages, after termination of the distributorship, by pasting the distributor's trademark over the manufacturer's name. Finally, in *Matsushita Electric Corp. v. Electric Corp. v. Solar Sound Systems Inc.*, 381 F. Supp. 64 (S.D.N.Y. 1974), the court found a "clear violation" of section 43(a) based on the defendant's conduct in slightly modifying the control panel on plaintiff's radio, removing plaintiff's nameplate to substitute defendant's, and scraping off the embossed labeling on the back.

According to appellant's complaint, defendants not only removed appellant's name from all credits and advertising, they also substituted a name of their own choosing. Appellees' alleged conduct therefore amounts to express reverse passing off. As a matter of policy, such conduct, like traditional palming off, is wrongful because it involves an attempt to misappropriate or profit from another's talents and workmanship. Moreover, in reverse palming off cases, the originator of the misidentified product is involuntarily deprived of the advertising value of its name and of the goodwill that otherwise would stem from public knowledge of the true source of the satisfactory product. See Borchard, *supra*, at 4; 1 J. McCarthy, *supra*, § 3:5; F. Schechter, "The Rational Basis of Trademark Protection," 22 *Trademark Bull.* 139, 144-45 (1927), reprinted in 60 *Trademark Rep.* 334, 337 (1970). The ultimate purchaser (or viewer) is also deprived of knowing the true source of the product and may even be deceived into believing that it comes from a different source. Borchard, *supra*, at 4-5.

In the film industry, a particular actor's performance, which may have received an award or other critical acclaim, may be the primary attraction for moviegoers. Some actors are said to have such drawing power at the box office that the appearance of their names on the theater marquee can almost guarantee financial success. Such big box office names are built, in part, through being prominently featured in popular films and by receiving appropriate recognition in film credits and advertising. Since actors' fees for pictures, and indeed, their ability to get

any work at all, is often based on the drawing power their name may be expected to have at the box office, being accurately credited for films in which they have played would seem to be of critical importance in enabling actors to sell their “services,” i.e., their performances. We therefore find that appellant has stated a valid claim for relief under section 43(a) of the Lanham Act.

B. Standing under the Lanham Act

As an alternative ground for dismissal, the district court raised the issue of the plaintiff’s standing to sue, on the ground that appellant was “not in any sort of competition” with the defendants. On this appeal, appellees contend that appellant has no standing to sue under the Lanham Act since appellant is not a member of a “purely commercial class.” We reject this argument and hold that appellant is entitled to press his claim for “false representation” in federal court under section 43(a).

On its face, section 43(a) gives standing to sue to “any person who believes that he is or is likely to be damaged.” See *L’Aiglon Apparel Co. v. Lana Lobell, Inc.*, 214 F.2d 649, 651 (3d Cir. 1954) (“It seems to us that Congress has defined a statutory civil wrong of false representation of goods in commerce and has given a broad class of suitors injured or likely to be injured by such wrong the right to relief in the federal courts.”). The word “person” in section 43(a) includes “juristic persons” (e.g., firms, corporations, unions, and associations) as well as “natural persons.” 15 U.S.C. § 1127. Moreover, the plaintiff under section 43(a) need not be in actual competition with the alleged wrongdoer. See *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149, 151 (9th Cir.), *cert. denied*, 374 U.S. 830 (1963); *F.E.L. Publications, Ltd. v. National Conference of Catholic Bishops*, 466 F. Supp. 1034, 1044 (N.D.Ill. 1978); *Mortellito v. Nina of California, Inc.*, 335 F. Supp. 1288, 1294 (S.D.N.Y. 1972).

The Second Circuit has ruled that section 43(a) does not give standing to consumers. *Colligan v. Activites Club of New York, Ltd.*, 442 F.2d 686 (2d Cir.), *cert. denied*, 404 U.S. 1004 (1971). This reading of section 43(a) has been sharply criticized. See, e.g., 2 J. McCarthy, *supra*, § 27:5. At any rate, however, it is clear that appellant, as one in the business of providing his talents for use in the creation of an entertainment product, is uniquely situated to complain of injury resulting from a film distributor’s misidentification of appellant’s contribution to the product. According to one commentator, the “dispositive question” as to a party’s standing to maintain an action under section 43(a) is whether the party “has a reasonable interest to be protected against false advertising.” 1 R. Callman, *supra*, § 18.2(b), at 625 (3d ed. 1967). See also *New West Corp. v. NYM Co. of Calif., Inc.*, 595 F.2d 1194, 1198 (9th Cir. 1979). The vital interest of actors in receiving accurate credit for their work has already been described. Accordingly, we hold that appellant has standing to sue in federal court based on defendants’ alleged violation of section 43(a). . . .

Conclusion

As the district court stated, a section 43(a) claim may be based on practices or conduct “economically equivalent” to palming off. We find that appellant did state such a claim by alleging that defendants engaged in conduct amounting to “express reverse palming off.” Since appellant also has standing to sue under section 43(a), the district court’s dismissal of the complaint for failure to state a federal claim is reversed. . . .

Lamothe v. Atlantic Recording Corporation, 847 F.2d 1403 (9th Cir. 1988)

THOMPSON, CIRCUIT JUDGE

Robert M. Lamothe and Ronald D. Jones appeal from the district court's grant of summary judgment in favor of Robinson L. Crosby and Juan Croucier, and Atlantic Recording Corp., Marshall Berle, Time Coast Music, Ratt Music, Chappell Music Co., Rightsong Music, Inc., Stephen Percy, Warren de Martini, Robert Blotzer, and WEA International, Inc. The district court held that summary judgment was appropriate because Lamothe and Jones failed to establish that section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), provides relief to co-authors whose names have been omitted from a record album cover and sheet music featuring the co-authored compositions. Because the court concluded that no federal cause of action existed, the court also dismissed the plaintiffs' pendent state law claims for an accounting, defamation, and misattribution of authorship.

We . . . reverse. . . .

II. Facts

Viewing the evidence in the light most favorable to Lamothe and Jones, the nonmoving parties, the facts pertinent to this appeal are that Lamothe, Jones and Crosby are co-authors of two songs entitled "Scene of the Crime," and "I'm Insane." These works were composed while Lamothe, Jones and Crosby were members of a band called Mac Meda. After Mac Meda disbanded, Crosby joined another musical group called RATT. While Crosby was a member of RATT, he and Juan Croucier licensed the songs at issue to Time Coast Music, which in turn sub-licensed the songs to other of the defendants in this case, including Atlantic Recording. In 1984, Atlantic released an album by the group RATT entitled "Out of the Cellar," which included the recordings of the songs "Scene of the Crime" and "I'm Insane." Because of the popularity of this album, the music and lyrics for all compositions on the album were released in sheet music form by the sub-licensee Chappell Music Co. In both versions (album and sheet music), authorship of the music and lyrics of "I'm Insane" was attributed solely to Robinson Crosby and the music and lyrics of "Scene of the Crime" were attributed to Robinson Crosby and Juan Croucier. Neither Robert Lamothe nor Ronald Jones received credit for their roles in the writing of these songs.

III. Analysis

. . . The principal issue on appeal is whether Lamothe and Jones have stated a claim under section 43(a) of the Lanham Act. . . .

The Lanham Act's prohibition of false designations or representations reaches either goods or services sold in interstate commerce. *Smith v. Montoro*, 648 F.2d 602, 605 (9th Cir. 1981). It has been applied to motion picture representations, *id.*, and the defendants cite no case holding that it does not similarly reach musical compositions. We also note that "[t]o recover for a violation of [section 43(a)] it is not necessary that a mark or trade-mark be registered. The dispositive question is whether the party has a reasonable interest to be protected against false advertising." *Id.* (quoting *New West Corp. v. NYM Co. of Cal.*, 595 F.2d 1194, 1198 (9th Cir. 1979)); see also *Smith*, 648 F.2d at 605 n.3 (collecting cases describing reach of section 43(a)). Finally, we recently have made clear that in

cases involving false designation, the actionable “conduct must not only be unfair but must in some discernable way be competitive.” *Halicki v. United Artists Communications, Inc.*, 812 F.2d 1213, 1214 (9th Cir. 1987). In the present case, the plaintiffs clearly have a legitimate interest in protecting their work from being falsely designated as the creation of another. The defendants do not dispute that the plaintiffs and Crosby are competitors in the relevant market. Having determined that the plaintiffs have an interest protected by the Lanham Act, we turn our attention to whether the defendants’ conduct in this case constitutes a violation of section 43(a).

1. Prohibited Conduct Under Section 43(a)

... The Lanham Act applies to two different types of unfair competition in interstate commerce. The first is “palming off” or “passing off,” which involves selling a good or service of one person’s creation under the name or mark of another. *Smith v. Montoro*, 648 F.2d 602, 604 (9th Cir. 1981). Section 43(a) also reaches false advertising about the goods or services of the advertiser. *U-Haul Int’l, Inc. v. Jartran, Inc.*, 681 F.2d 1159, 1160 (9th Cir. 1982). Because we conclude that Lamothe and Jones, for purposes of surviving a motion for summary judgment, have produced evidence satisfying the elements of a “reverse passing off” claim, we need not decide whether the defendants’ actions also constitute false advertising.

2. Passing Off

[In] [t]he leading case in this circuit discussing the “passing off” doctrine embodied in section 43(a) *Smith v. Montoro*, 648 F.2d 602 (9th Cir. 1981). . . .

[w]e concluded . . . that by deleting Smith’s name from the film and advertising materials and substituting the name “Bob Spencer,” the defendants had engaged in express reverse passing off.

... In the present case, taking the allegations of the complaint as true, the defendants engaged in express reverse palming off, by which they deprived Lamothe and Jones of recognition and profits from the release of the two songs that were their due.

The defendants’ argument on appeal, reduced to its simplest form is that there can be no express reverse passing off when the designation of a product’s source is partially correct. Defendants argue that the failure to attribute authorship to Lamothe and Jones is a “mere omission,” which is not actionable under section 43(a). We disagree. We do not read the “falsity” requirement in origination cases so narrowly that a partially accurate designation of origin, which obscures the contribution of another to the final product, is a permissible form of competition. [n2—Several of the cases relied on by the defendants are not applicable to this case. In those cases, removal of identifying letters or symbols from the product of another manufacturer has been said not to violate the Lanham Act. . . . In this case, however, the defendants did not simply remove all trace of the source of the product, which might itself be actionable as implied reverse passing off. . . . Rather the defendants applied an incomplete designation of the songs’ source. Thus, the implied reverse passing off cases on which the defendants seek to rely are not applicable.] . . .

In the present case, the defendants unilaterally decided to attribute authorship to less than all of the joint authors of the musical compositions. Had the defendants decided to attribute authorship to a fictitious person, to the group “RATT,”

or to some other person, this would be a false designation of origin. It seems to us no less “false” to attribute authorship to only one of several co-authors. . . .

The policies we identified in *Smith*, namely, ensuring that the producer of a good or service receives appropriate recognition and that the consuming public receives full information about the origin of the good, apply with equal force here. An incomplete designation of the source of the good or service is no less misleading because it is partially correct. Misbranding a product to only partially identify its source is the economic equivalent of passing off one person’s product under the name or mark of another. And the *Smith* case makes clear that in assessing section 43(a) claims, courts are to consider whether the challenged “practices or conduct [are] ‘economically equivalent’ to palming off.” *Smith*, 648 F.2d at 605.

3. *Liability of Licensees*

. . . Atlantic Recording and the other licensees or sublicensees of Crosby and Croucier argue that even if Lamothe and Jones have stated a section 43(a) claim, they cannot be held liable because they are licensees. We disagree. Some of the licensees may have been involved in affixing an incomplete designation of authorship. These licensees would be liable under section 43(a) regardless of knowledge. See 15 U.S.C. § 1125(a). The express language of section 43(a) also imposes liability upon those who “with knowledge of the falsity of such designation of origin, cause or procure the same to be transported or used in commerce.” *Id.* The licensees have cited no case holding that a licensee is exempt from the prohibitions of the Lanham Act. Whether the licensees affixed the incomplete authorship or had knowledge of the false designation of origin are matters best left to the trier of fact to resolve.

IV. *Conclusion*

Because we conclude that Summary judgment was inappropriate, we reverse the decision of the district court and remand the case with instructions to reinstate Lamothe’s and Jones’s federal causes of action. . . .

NOTE

Relief under Section 43(a) is essentially dependent on commercial injury. In the absence of customer confusion or evidence of intentional deception, a plaintiff cannot recover damages under Section 43(a). *Bernbach v. Harmony Books*, 48 U.S.P.Q.2d 1696, 1998 WL 726009 (S.D.N.Y. 1998) (Copyright Office registration erroneously listed a co-author; however, book as published listed only plaintiff, who made no showing of customer confusion or economic harm).

As noted above, Dr. Cleary failed in his attempts to vindicate his claimed contractual credit rights, and to recover for unfair competition and infliction of emotional distress. As we see now, he also failed to convince the courts that he had a claim under Section 43a of the Lanham Act.

Cleary v. News Corp., 30 F.3d 1255 (9th Cir. 1994)

WILL, SENIOR DISTRICT JUDGE (sitting by designation)

Dr. James W. Cleary sued News Corporation [the parent company of HarperCollins and Scott, Foresman and Company], the publishers of *Robert’s*

Rules of Order, under the Lanham Act, 15 U.S.C. § 1125, for alleged misattribution of his work product. . . . For the following reasons, we affirm.

I. Background

[The facts of this case are reproduced in the portion of this opinion that appears above in the section of this book dealing with the right to claim credit by contract. See Section 2.5.1.] . . .

The parties' primary factual disagreement focuses on the extent of the revisions in the 1990 edition. The new edition was printed in a larger print type, which changed the pagination. Cleary insists that any other changes were minor. In evidence is a list of "buzz words" with special significance only to Cleary, that have remained in virtually identical places in the book. . . . In his declaration in opposition to summary judgment, Cleary acknowledged that reviewers of the 1990 edition listed "14 important areas of revision" between the 1970 and 1990 editions. However, he asserts that these changes consist merely of additional words, sentences or paragraphs; other than these few changes, he claims the text is essentially the same as the 1970 version. Scott, Foresman, on the other hand, insists that the 1990 edition is a major revision, and that the entire revision was prepared by Robert III and Evans.

In evidence are two reviews of the 1990 edition, both published in *Parliamentary Journal*. . . . The reviewers each characterize the new edition as a book-selling strategy, but discuss new and substantial changes in the edition. Also included in evidence is a list of changes compiled by the Registered Parliamentarian of Southern California. . . . This list, covering approximately the first half of the 1990 edition, records each of 73 changes made since the 1980 edition. . . .

A. Lanham-Trademark Act Claim

Section 43(a) of the Lanham Act prohibits the use of false designations of origin and false representations in the advertising and sale of goods and services. *Smith v. Montoro*, 648 F.2d 602, 603 (9th Cir. 1981). Cleary argues that the defendants violated § 43(a) when they removed his name from the title page of *Robert's Rules*, after crediting him for twenty years.

Scott, Foresman argues that because Cleary signed a contract containing a "work for hire" agreement, Scott, Foresman had no obligation to provide title credit in the 1970 edition, or any subsequent edition. Under copyright law, a work for hire clause vests all authorship rights in the employer. 17 U.S.C. § 201(b). Consequently, because the employer is considered the author of the work, once authorship rights are relinquished through a work for hire contract provision, the right to attribution is also relinquished unless that right is reserved explicitly in the contract. See, e.g., *Vargas v. Esquire, Inc.*, 164 F.2d 522, 524–27 (7th Cir. 1947) (holding that an artist could not claim a right of attribution against a magazine sounding in contract or unfair competition where the artist granted the magazine all rights to his drawings in exchange for monthly compensation); *Nelson v. Radio Corp. of Am.*, 148 F. Supp. 1 (S.D.Fla. 1957) (denying a singer a right to attribution in the absence of an agreement to provide label credit, where the court found a master-servant relationship between the singer and the recording company).

Cleary's contract with Scott, Foresman contained an explicit "work for hire" clause and did not mention giving Cleary title credit. . . . Thus, when Cleary agreed to "work for hire," Scott, Foresman became the author of all material

written by Cleary and, therefore, under the contract was not obligated to provide Cleary with title credit for his work.

Without conceding the point, Cleary argues that even if he did not have a contractual right to attribution, the Lanham Act nevertheless protects against misattribution. This Circuit has long recognized a form of misattribution or “reverse passing off” in the context of § 43(a) of the Lanham Act. See *Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys., Inc.*, 7 F.3d 1434, 1437 (9th Cir. 1993); *Shaw v. Lindheim*, 919 F.2d 1353, 1364 (9th Cir. 1990); *Lamothe v. Atlantic Recording Corp.*, 847 F.2d 1403, 1406 (9th Cir. 1988); *Smith v. Montoro*, 648 F.2d 602, 607 (9th Cir. 1981). “Reverse passing off” or “reverse palming off” occurs when a product is mislabeled to mask the creator’s contribution. Moreover, “failure to attribute authorship to a co-author resulting in only partially accurate designation of origin constitutes reverse palming off within the ambit of Section 43(a).” *Rosenfeld v. W. B. Saunders*, 728 F. Supp. 236, 243 (S.D.N.Y.) (citing *Lamothe*, 847 F.2d at 1407), *aff’d*, 923 F.2d 845 (2d Cir. 1990).

Cleary argues that removing his name from the title page after giving him credit for twenty years is “reverse passing off,” since Scott, Foresman omitted his name from the title page of the 1990 edition even though it is essentially the same text as the earlier versions that bore his name. Thus, Cleary urges this Court to hold that the Lanham Act protects an author against an inaccurate designation of authorship despite the fact that the author expressly contracted away the right to attribution.

This circuit has never considered the rule urged by Cleary. Consistent with Cleary’s argument, the case law does suggest that the Lanham Act does not create a duty of express attribution, but does protect against misattribution. See, e.g., *Morita v. Omni Publications Int’l Ltd.*, 741 F.Supp. 1107, 1114 (S.D.N.Y. 1990) (citing *Lamothe v. Atlantic Recording Corp.*, 847 F.2d 1403 (9th Cir. 1988)), vacated, 760 F.Supp. 45 (1991); see also 2 Paul Goldstein, *Copyright* § 15.24.2.2 (1989) (“even an author who has no right against nonattribution may have a right against misattribution [under section 43(a) of the Lanham Act].”). Yet none of these cases involved situations where the original author had contracted away attribution rights through a work for hire clause, and Cleary has failed to cite any case which directly supports his proposed rule.

In fact, the case most nearly on point is *Vargas v. Esquire, Inc.*, 164 F.2d 522 (7th Cir. 1947). . . .

Vargas, however, was decided prior to the enactment of the Lanham Act. Moreover, in *Vargas*, Esquire, after several years of publishing the artist’s pictures with his signature, began publishing his pictures without it. By contrast, in this case, Scott, Foresman, after several years of attributing assistance authorship to Cleary and two other authors, removed Cleary’s name and published the 1990 edition with only Robert III’s and Evans’ names. Consequently, *Vargas* did not consider the precise issue posed in this case: whether a right against misattribution can be found despite a work for hire agreement when the party with whom the Lanham Act plaintiff initially contracted actually gave that plaintiff attribution credit.

We need not decide, however, if the Lanham Act grants Dr. Cleary a right against misattribution in the context of this case. Assuming arguendo that he originally possessed such a right and did not contract it away through the work for hire agreement, we conclude that it was not violated by Scott, Foresman.

This circuit has established a rigorous test for proving “reverse passing off”

under the Lanham Act. It is not enough that the misattributed material is “substantially similar;” instead, there must be “bodily appropriation.” *Shaw*, 919 F.2d at 1364. . . .

While adopting a “bodily appropriation” test in “reverse passing off” cases, we have not provided an exact definition of “bodily appropriation” in those cases. In *Shaw*, we cited *Smith* and *Lamothe* for the proposition that the “reverse passing off” doctrine is limited to two situations:

Reverse passing off is accomplished “expressly” when the wrongdoer removes the name or trademark on another party’s product and sells that product under a name chosen by the wrongdoer. “Implied” reverse passing off occurs when the wrongdoer simply removes or otherwise obliterates the name of the manufacturer or source and sells the product in an unbranded state.

. . . However, in *Summit*, we recognized that “[a] defendant may also be guilty of reverse palming off by selling or offering for sale another’s product that has been modified slightly and then labelled with a different name.” 7 F.3d at 1437 (quoting *Roho Inc. v. Marquis*, 902 F.2d 356, 359 (5th Cir. 1990)).

In the copyright context we have defined “bodily appropriation” as the “copying or unauthorized use of substantially the entire item.” *Harper House, Inc. v. Thomas Nelson, Inc.*, 889 F.2d 197, 205 (9th Cir. 1989). We consider this definition useful in the Lanham Act context, because, consistent with our decisions in *Shaw* and *Summit*, it recognizes that slight modifications of a product might cause customer confusion, while products which are merely generally similar will not.

While the 1990 edition of *Robert’s Rules* is similar in many respects to the 1970 edition, the changes between the editions are not so slight that the 1990 edition can be considered a “bodily appropriation” of the 1970 edition. Cleary correctly argues that “a Lanham Act Section 43 [claim] can [not] be lawfully defeated by resort to the sprinkling of a few neat sentences here and there or the making of trivial deletions.” He then concludes that his “textual work product has been bodily carried over to the so-called new 1990 Edition.” . . . But the evidence establishes that the revisions to the 1990 edition were more significant. The preface to the 1990 edition states that the “text of the previous edition remains intact except where specific revisions or insertions have been made” and then lists 14 “important areas of revision.” Further, in a review of the 1990 edition, Bernard Sussman noted:

There are, however, some additions, and contrary to the usual hype there are also some changes from the rules previously taught. Already a number of parliamentarians have distributed helpful lists of changes, corresponding page numbers, and other notes about the new edition.

. . . In another review, Dr. Greg Phifer carefully delineated all 14 areas of revision and concluded, “Evans and Robert add more explanations, more definitions, more rules to memorize—more of everything.” . . .

Viewing the evidence in the light most favorable to Cleary, which must include the reviews of the 1990 edition, we are persuaded that there were, at the least, some major changes between the 1970 and 1990 editions. Even if Cleary completely wrote fifteen of the twenty chapters contained in the 1970 edition as he

claims . . . , the vast majority of the twenty chapters were revised in some way in the 1980 and 1990 editions. Granted some of these revisions involved merely changing words, but many of them involved additional sentences, paragraphs, or pages of explanation, and some changes, although brief, reversed or altered previous rules. These changes would put readers on notice that this new edition is not merely a near verbatim copy of the 1970 edition expanded through a larger print type. Because the 1990 edition is more than a slight modification of the 1970 edition, the district court properly granted summary judgment as to Cleary's Lanham Act claim. [n4—We note that where the plaintiff complains of misattribution of a work that consists solely of revisions to a previous work, the more appropriate approach might be to consider whether the revisions written by the plaintiff were bodily appropriated, instead of whether the work as a whole was a bodily appropriation. Under this approach, the plaintiff would prevail if he could establish that his part of the book was included in the new edition in verbatim or near verbatim form. However, while Cleary stated that he wrote fifteen of the twenty chapters, he never established which chapters he actually did write. In addition, as discussed above, significant changes were made to the majority of chapters, leading us to conclude that the portions of the 1970 edition written exclusively by Cleary were not bodily appropriated.]

Parenthetically, we note that, even if we were to apply a less demanding “consumer confusion” standard as urged by the appellants and employed by the Second Circuit, among others, Cleary would not prevail. In *Rosenfeld v. W. B. Saunders*, 728 F. Supp. 236 (S.D.N.Y.), *aff'd*, 923 F.2d 845 (2d Cir. 1990), a case strikingly similar to this one, the plaintiff claimed that the editor of a medical treatise's third edition failed to give proper credit to the author of the treatise's first edition, and had thus engaged in reverse passing off. Denying the claim for injunctive relief, the district court held that the edition's editor had accurately described the author's prior participation in the preface to the new edition, mitigating any possible confusion. The court also emphasized that the work was not a “mass market” book; sophisticated purchasers of reference works are generally aware that “a treatise by definition typically builds upon previous works in the field. . . .” *Id.* at 244.

Robert's Rules, like the medical treatise at issue in *Rosenfeld*, is not a “mass market” book. Its audience is apt to be highly sophisticated, and likely to be familiar with earlier editions of the work. Moreover, Cleary's past contribution to the 1970 edition was mentioned accurately, if briefly, in the 1990 introduction. Accordingly, the district court did not err when it granted summary judgment to the defendants on the Lanham Act claim. . . .

Artists Visual Rights Act of 1990, Copyright Act §§ 106A and 101 (17 U.S.C. §§ 106A and 101)

§106A. Rights of certain authors to attribution and integrity

(a) Rights of attribution and integrity. . . . [T]he author of a work of visual art—

(1) shall have the right—(A) to claim authorship of that work. . . .

(3) The rights described in paragraph [] (1) . . . of subsection (a) shall not apply to any reproduction, depiction, portrayal, or other use of a work in, upon, or in any connection with any item described in subparagraph (A) or (B) of the definition of “work of visual art” in section 101. . . .

(e) Transfer and waiver.

(1) The rights conferred by subsection (a) may not be transferred, but those rights may be waived if the author expressly agrees to such waiver in a written instrument signed by the author. Such instrument shall specifically identify the work, and uses of that work, to which the waiver applies, and the waiver shall apply only to the work and uses so identified. In the case of a joint work prepared by two or more authors, a waiver of rights under this paragraph made by one such author waives such rights for all such authors.

(2) Ownership of the rights conferred by subsection (a) with respect to a work of visual art is distinct from ownership of any copy of that work, or of a copyright or any exclusive right under a copyright in that work. Transfer of ownership of any copy of a work of visual art, or of a copyright or any exclusive right under a copyright, shall not constitute a waiver of the rights conferred by subsection (a). Except as may otherwise be agreed by the author in a written instrument signed by the author, a waiver of the rights conferred by subsection (a) with respect to a work of visual art shall not constitute a transfer of ownership of any copy of that work, or of ownership of a copyright or of any exclusive right under a copyright in that work.

§101. A “work of visual art” is—

(1) a painting, drawing, print, or sculpture, existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or, in the case of a sculpture, in multiple cast, carved, or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author; or

(2) a still photographic image produced for exhibition purposes only, existing in a single copy that is signed by the author, or in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author.

A work of visual art does not include—

(A)(i) any poster, map, globe, chart, technical drawing, diagram, model, applied art, motion picture or other audiovisual work, book, magazine, newspaper, periodical, data base, electronic information service, electronic publication, or similar publication;

(ii) any merchandising item or advertising, promotional, descriptive, covering, or packaging material or container;

(iii) any portion or part of any item described in clause (i) or (ii);

(B) any work made for hire; or

(C) any work not subject to copyright protection under this title.

2.5.2.2 *Right to Disclaim Credit*

**Shostakovich v. Twentieth Century-Fox Film Corp., 196 Misc. 67, 80
N.Y.S.2d 575 (Sup. Ct. N.Y. County 1948)**

KOCH, JUSTICE

Plaintiffs are composers of international renown. They are citizens and residents of the Union of Soviet Socialist Republics. Defendant, a domestic corporation has produced a picture known as “The Iron Curtain” which is now being exhibited in theatres throughout this country. In the public mind, this title has come to indicate the boundary between that part of Europe which is under the sovereignty of, occupied by or under the influence of the U.S.S.R., as distinguished from the rest of the continent. The picture depicts recent disclosures of espionage in Canada attributed to representatives of the U.S.S.R. There is shown, preliminarily, but not as part of the picture proper, as is customary in the showing of motion pictures, the names of the players, the producer, the cameramen, and

similar informative data. Included is this statement: "Music—From The Selected Works of the Soviet Composers—Dmitry Shostakovich, Serge Prokofieff, Aram Khachaturian, Nicholai Miashovsky—Conducted by Alfred Newman." Such practice in the theatrical, advertising and kindred businesses is known as giving a "credit line." During the picture, music of the several plaintiffs is reproduced, from time to time, for a total period of approximately 45 minutes. The entire running time of the film is 87 minutes. The use of the music can best be described as incidental, background matter. Aside from the use of their music neither the plot nor the theme of the play, in any manner, concerns plaintiffs. In addition to the use of their names on the "credit lines" the name of one plaintiff is used when one of the characters in the play is shown placing a recording of this particular plaintiff's music on a phonograph. Again this is incidental, the name is mentioned in an appreciative, familiar fashion, the impression given being that the character has come upon a record of a composition which he recognizes and appreciates hearing. All the music, it is conceded, for the purposes of this motion, is in the public domain and enjoys no copyright protection whatever.

Plaintiffs seek to enjoin pendente lite and permanently the use of their names and music in the picture and in any advertising or publicity matter relating to it. Only one cause of action is set forth in the complaint. Primarily, libel and violation of the Civil Rights Law are charged. It may also be that the allegations can be construed to spell out causes for (a) the deliberate infliction of an injury without just cause and (b) a violation of plaintiffs' moral rights as composers. In addition to the injunctive relief a money judgment is asked.

On this motion plaintiffs base their rights to relief on these grounds: (1) the provision for injunctive relief contained in § 51 of the Civil Rights Law; (2) the injunctive power of this court to restrain publication of defamatory matter (*Koussevitzky v. Allen, Towne & Heath*, 272 App.Div. 759, 69 N.Y.S.2d 432); (3) the deliberate infliction of an injury without just cause (*Advance Music Corporation v. American Tobacco Co.*, 296 N.Y. 79, 70 N.E.2d 401, and (4) the violation of plaintiffs' moral rights as composers. The Doctrine of Moral Right, etc., 53 Harvard Law Review, 554.

The application must be denied insofar as relief is sought under § 51 of the Civil Rights Law. In *Jaccard v. R. H. Macy & Co. Inc.*, 265 App.Div. 15, 37 N.Y.S.2d 570, it was held that the use of a designer's name in advertising the sale of a dress copied without her consent from her original, uncopyrighted design was not an invasion of the right of privacy protected by §§ 50 and 51 of the Civil Rights Law. While the analogy between a dress design and plaintiffs' music might be considered unfortunate by some, the legal principle is the same. Plaintiffs' compositions are similarly unprotected and the use of their names in conjunction therewith is, therefore not subject to restraint under the Civil Rights Law. The lack of copyright protection has long been held to permit others to use the names of authors in copying, publishing or compiling their works. *Clemens v. Belford Clark & Co.*, C.C., 14 F. 728.

Passing to the right to injunctive relief restraining the publication of alleged libelous matter, it is first noted that under the ancient doctrine of this state there was no right to enjoin the publication of defamatory matter. *Koussevitzky v. Allen, Towne & Heath*, 188 Misc. 479, 68 N.Y.S.2d 779. In affirming the denial of injunctive relief in that case however, the Appellate Division, 272 App.Div. 759, 69 N.Y.S.2d 432, 433, in this department said, in a per curiam opinion: "Our

affirmance . . . should not be construed as a determination by this court that injunctive relief may not be had to restrain the publication of defamatory statements in a proper case.” Two questions are, therefore, presented for consideration: (1) have plaintiffs been libeled; (2) if so, is this a proper case in which to grant injunctive relief. The gravamen of plaintiffs’ charge is that by the portrayal of the espionage activities of the representatives of the U.S.S.R. in Canada and by the depicted disowning of these activities by one of these representatives a picture with an anti-Soviet theme has been published. The use of plaintiffs’ music in such a picture, it is argued, indicates their “approval,” “endorsement” and “participation” therein thereby casting upon them “the false imputation of being disloyal to their country.” The court in the presence of and with the consent of counsel for both sides has seen the picture. There is no ground for any contention that plaintiffs have participated in its production or given their approval or endorsement thereto. It is urged that the use of plaintiffs’ names and music “necessarily implies” their consent, approval or collaboration in the production and distribution of the picture because “the public at large knows that living composers receive payment for the use of their names and creations in films.” The error in this reasoning is in the necessary implication. No such implication exists, necessarily or otherwise, where the work of the composer is in the public domain and may be freely published, copied or compiled by others. *Jaccard v. Macy & Co. Inc.*, *supra*; *Clemens v. Belford, Clark & Co.*, *supra*. In the absence of such implication the existence of libel is not shown and the drastic relief asked cannot be granted. Such is likewise the ruling if plaintiffs’ contention is that they are being used, unwillingly, as a means to disseminate libelous matter. In such a case the pre-requisite of exercising the injunctive power would again be a clear showing of the existence of libel.

The third and fourth grounds will be considered together. There is no longer any doubt that the deliberate infliction of a wilful injury without just cause is actionable. *Advance Music Corporation v. American Tobacco Co.*, *supra*. The wrong which is alleged here is the use of plaintiffs’ music in a moving picture whose theme is objectionable to them in that it is unsympathetic to their political ideology. The logical development of this theory leads inexcapably to the Doctrine of Moral Right (53 Harvard Law Review). There is no charge of distortion of the compositions nor any claim that they have not been faithfully reproduced. Conceivably, under the doctrine of Moral Right the court could in a proper case, prevent the use of a composition or work, in the public domain, in such a manner as would be violative of the author’s rights. The application of the doctrine presents much difficulty however. With reference to that which is in the public domain there arises a conflict between the moral right and the well established rights of others to use such works. *Clemens v. Belford Clark & Co.*, *supra*. So, too, there arises the question of the norm by which the use of such work is to be tested to determine whether or not the author’s moral right as an author has been violated. Is the standard to be good taste, artistic worth, political beliefs, moral concepts or what is it to be? In the present state of our law the very existence of the right is not clear, the relative position of the rights thereunder with reference to the rights of others is not defined nor has the nature of the proper remedy been determined. Quite obviously therefore, in the absence of any clear showing of the infliction of a wilful injury or of any invasion of a moral right, this court should not consider granting the drastic relief asked on either theory. The motion is accordingly denied in all respects.

NOTE

Subsequent to the breakup of the Soviet Union, recordings featuring famed cellist Mstislav Rostropovich were licensed for U.S. distribution by a purported successor to the former government's state recording agency. The artist objected to such distribution. In *Rostropovich v. Koch International Corp.*, 34 U.S.P.Q.2d 1609, 1995 U.S. Dist. LEXIS 2785; 1995 U.S. Dist. LEXIS 10696 (S.D.N.Y. 1995), the court held that Rostropovich was entitled to a jury trial on the issue of whether the size and prominence of Rostropovich's name and likeness on the covers of CDs embodying his recordings were sufficient to constitute a false endorsement under Section 43(a) of the Lanham Act.

Follett v. Arbor House Publishing Co., Inc., 497 F. Supp. 304 (S.D.N.Y. 1980)

SWEET, DISTRICT JUDGE

This action presents questions arising out of the intended publication by Arbor House this fall of a book, *The Gentlemen of 16 July*, which Arbor House intends to attribute to Follett as principal author, "with Rene Louis Maurice," a pseudonym for three French authors. Follett has written *Key to Rebecca*, which will also be published by New American this fall, and seeks to restrain Arbor House from publishing *The Gentlemen of 16 July* and from using the currently proposed authorship attribution. Arbor House seeks to restrain Follett, Morrow, and New American from disparaging *The Gentlemen of 16 July* and its authorship attribution. The principal statute involved is section 43 of the Lanham Act, 15 U.S.C. § 1125, and in varying degrees counsel agree that there is no directly relevant precedent.

The issue for decision is both unique and fascinating, requiring the court to consider the practices in the publishing industry with respect to authorship attributions, the meteoric rise of Follett as a novelist, the distinction between creating and editing a literary work, and ultimately, the effect of all of this on the public. Based upon the evidence that has been presented by highly skilled counsel, at least one of whom has authored as well as litigated, an injunction must issue requiring Arbor House to indicate that *The Gentlemen of 16 July* is a work of nonfiction written by Rene Louis Maurice with Ken Follett, with attribution to be equal and in chronological order—that is, with Rene Louis Maurice first. The following constitutes the court's findings of fact and conclusions of law.

Despite the difficulty in reaching the ultimate conclusions relating to creativity and publishing integrity, the facts revealed by the testimony and the exhibits are largely undisputed.

On July 16, 1976, Albert Spaggiari and his confederates began tunnelling under the streets of Nice, France. By July 19, 1976, they had reached their goal, a bank vault, and had removed some 60 million francs of property in various forms. Subsequently, certain of the confederates were apprehended, as was Spaggiari. On March 10, 1977, by a dramatic leap from a courthouse window, Spaggiari escaped. These events were, of course, chronicled in the press at the time.

Shortly after the theft, three French journalists collaborated on a book-length account of these events. This account was published in France as "Cinq Millions au Bout de l'Égout" under the attribution Rene Louis Maurice, the pseudonym of the three reporters. Jean Claude Simoen certified in May 1977 that he was the author of this work. Be that as it may, Clemens von Bezard, the director and principal owner of the Star Agency Establishment ("Star"), a Liechtenstein com-

pany engaged in publishing, acquiring and licensing literary rights, entered into negotiations with Simoen. As a consequence of those negotiations, Bezard testified that he acquired the right to publish the account outside France. Bezard translated the account into German and had it translated into English by Jeffrey Robinson.

In the summer of 1977, Bezard communicated with his agent in England, Burnett Rigg, to arrange for publication of the account by a British publisher. As a consequence of Rigg's efforts, William Collins Sons & Company Ltd. ("Collins") purchased the account for publication by Fontana Paperbacks, a division of Collins.

At the same time, Follett became involved, also through Rigg who acted as his agent. Follett had started his literary career by working as a reporter. By 1977 he had written ten books, including one children's novel and two thrillers, seven of which had been published under a byline other than Ken Follett. To further his knowledge of his profession, he had sought and obtained employment as an editor and had progressed to a position as deputy managing director of a publishing house.

Rigg suggested to Collins and Star that Follett be given the translation to review and, according to the final agreement between Star and Collins, to edit the work and prepare it for publication. On July 12, Follett wrote to Rigg suggesting that considerable work was required, including restructuring the story, bringing style to the writing, exploiting the drama, developing the characters and filling in gaps. On August 5, 1977, Simon King, on behalf of Collins, agreed to pay Follett 850 pounds "for refashioning the typescript" as Follett had suggested, on condition that Follett visit Nice to obtain background material. Thereafter Follett went to work to revise the manuscript which was subsequently published under the title *The Heist of the Century*.

Follett is an efficient, careful and diligent ex-reporter and editor. Fortunately for this writer, his work is carefully detailed and explicit. First, he prepared his "schema" for rewrite, a six-page document posing certain questions to which Follett sought answers. He sent this to Bezard, and it was followed up by a trip to Nice in September 1977.

In Nice, Follett was met by Bezard. They visited certain of the locations referred to in the account and were joined by Carolyn Atkinson, then a part-time employee of Bezard. The next day, Saturday, was spent without progress on the assignment, but on Sunday, Bezard, Follett and Atkinson met with Rene Cenni, one of the journalists who had written the French account. Atkinson translated and Follett meticulously recorded Cenni's answers to the questions posed in the "schema." During this working luncheon, Follett requested by-line credit from Bezard, a request casually and quickly granted in order not to raise the issue in Cenni's presence.

On his return Follett worked daily for twelve days using the Robinson translation, a second translation of the French account, newspaper clippings, his own notes and the "schema." The work when completed contained between 42,000 and 43,000 words on 160 printed pages. It was submitted to Rigg on September 26, 1977. King's response in late November characterized the work as a "rewrite," "splendid," and "terrific."

Notwithstanding this reaction, the question of copyright and attribution was not so satisfactorily resolved. King refused Follett's requested copyright, citing Rigg, but agreed to credit Follett on the title page. Follett insisted on a copyright

for his “rewrite,” claimed a further financial interest in the book, and implied that legal action would be taken to enforce his position. Letters were exchanged and then on May 22, 1978, David Grossman, Follett’s London agent, assured King that no copyright claim would be made by Follett, and that the attribution of “Rene Louis Maurice with Ken Follett” on the title page would be satisfactory to Follett.

The Heist of the Century was published in England in the fashion just described, namely “Rene Louis Maurice with Ken Follett” on the title page, and the pseudonym alone on the cover. It was thereafter offered to at least seven publishing houses in the United States by Zuckerman in May 1978. No publication ensued, and New American declined the book again in the fall of 1979.

Also in the fall of 1977, Follett contracted for the publication in the United States of his book *Storm Island*, which had already come out in England. It was retitled *Eye of the Needle*, and Arbor House, the publisher, embarked upon a campaign to promote the book. The book was a great success, achieving best seller status, and possessed what Donald Fine, the president and chief executive officer of Arbor House, described as “narrative drive.” It was in the view of this reviewer an exciting spy story, laid in England during World War II with a challenging plot animated, as Follett explained, not only by external events but also by the characters of the protagonists. This was particularly so with respect to its dramatic denouement.

Arbor House obtained an option for Follett’s next book, ultimately titled *Triple*, a tale involving espionage relating to the establishment of nuclear capacity by Israel. Follett had also conceived of a plot relating to Marshal Rommel’s desert campaign and the espionage and counterespionage which was involved. Fine liked the World War II plot better than *Triple* and urged Follett to let Arbor House publish it. However, Follett decided to proceed with *Triple* partly, according to Fine, to avoid being typed as an author writing only about the World War II period. *Triple* was submitted to Arbor House in outline form late in 1978, and the manuscript was delivered early in 1979. A dispute over editing ensued, Follett threatened litigation to bar certain changes in the manuscript, the matter was resolved, and *Triple* was published successfully, completing Follett’s obligation to Arbor House.

Follett then contracted with New American for future works and received an advance against royalties of \$3,000,000 for his next three books. He delivered the first of these, *Key to Rebecca*, the desert campaign book, early this year and its publication this fall was announced to the trade in the spring. *Key to Rebecca* will be a volume of 384 pages to be sold for \$12.95.

In May 1980, Star, still claiming possession of the rights to *The Heist of the Century*, retained Meredith to represent its interests in the United States. On May 13, Star sent Fine the book to review for publication. Shortly after reading it, Fine determined to publish the book as *The Gentlemen of 16 July* and entered into a contract with Star which provided for a \$25,000 advance royalty payment. Fine knew of New American’s plans for the publication of *Key to Rebecca* in the fall.

Arbor House has prepared a jacket for *The Gentlemen of 16 July* that has the following authorship attribution.

by the author [of] TRIPLE and EYE OF THE NEEDLE
KEN FOLLETT
with Rene Louis Maurice

Only Follett's name is listed on the spine portion of the jacket. *The Gentlemen of 16 July* is expected to constitute 208 printed pages and to sell for \$9.95.

No cases have been brought to the attention of the court relating to the question of attribution, and the testimony established contrasting practices in the publishing industry. Different attributions which frequently are used include "as told to," "by," "with," and co-authorship. One witness testified that there is no difference between "by" and "with" with respect to attribution. There are instances of publication of books under the name of one author actually written by another, without attribution, or written entirely by one author with principal attribution to another. These attributions are arrived at by negotiations with the authors and the direction of the publisher. There was testimony that if the publisher possesses all the rights, the attribution is at his discretion.

Both Arbor House and Morrow plan to promote their respective Follett books vigorously, have announced their intentions to the trade, and have invested substantial sums in the promotion and publication of their respective books. Both books are scheduled for release this fall. All parties agree that the critical and public success of each book will substantially affect sales of the other. No testimony concerning public opinion was presented, and it is difficult, if not impossible, to conceive how such evidence could be obtained as events now stand.

Much of the evidence, naturally, centered on an analysis of Follett's work which resulted in the *The Heist of the Century*, retitled for United States publication as *The Gentlemen of 16 July*, including a line-by-line comparison of Follett's product and its principal predecessor, the Robinson version. What is without challenge is that Follett added to the previous versions a prologue, an epilogue, chapter headings, about half a page of analysis of Spaggiari's psychology obtained conveniently from a next-door neighbor of Follett's who was a psychologist, and details obtained from Cenni. It is also conceded that Follett eliminated the frequent use of flashback in favor of a chronological march of events, and made alterations to Anglicize the references. In addition, the work was re-written, and characterizations were sharpened. . . .

While there are a number of instances of re-writing of this kind, which enhance the personalities of the characters for the reader, the characterizations themselves remain essentially the same as depicted by the French authors. The incidents reported are unchanged though the sequence is altered so that each follows chronologically. There can be no doubt that to the reader of the English language, *The Heist of the Century* is a more compelling version of the historical events surrounding the Nice bank robbery than the Robinson translation. . . .

Although hired to edit according to the Star/Collins agreement, Follett did more. Fine, a concerned and capable editor who is justly proud of his ability to discern works of quality and even to improve them, drew the line between editing and authorship on a practical level. He noted that authors do not permit editors to obtain authorship credit, as a practical matter, even if the revisions are substantial. Here, Follett in fact rewrote the work. The language and presentation of the work were substantially improved and altered. Follett sought and obtained some authorship credit, though less than he felt he had earned at the time. . . .

Although the parties have attempted to frame the issues in this case in different, and in some respects contradictory fashion, the controlling question is whether the attribution to Ken Follett as the principal author of *The Gentlemen of 16 July* constitutes a false representation and false designation of origin. . . .

In *Gieseking v. Urania Records, Inc.*, 17 Misc.2d 1034, 155 N.Y.S.2d 171 (N.Y.

Co. Sup. Ct. 1956), the court suggested that an author has a right under the New York Civil Rights law to ensure that any attribution to him accurately reflects his contribution to a manuscript. The court stated, “A performer has a property right in his performance that it shall not be used for a purpose not intended, and particularly in a manner which does not fairly represent his services.” By analogy, it may well be that Follett is entitled to an accurate description of his role in preparing *The Gentlemen of 16 July*. Any rights which he may hold in this regard are co-extensive with his right under the Lanham Act, discussed below.

Arbor House and Meredith contend that the Lanham Act issues in this case are controlled by a determination as to whether Follett’s version of *The Heist of the Century* was copyrightable under the Copyright Act, 17 U.S.C. §§ 101 *et seq.* They urge that Follett’s version could have been copyrighted, since in a non-fiction work such as *The Heist of the Century*, the right to obtain a copyright derives from the form of words in which events are recounted, and not from the interpretation of the events themselves. See *Hoehling v. Universal City Studios, Inc.*, 618 F.2d 972 (2d Cir. 1980). Arbor House and Meredith point out that the form of the manuscript after Follett’s editing differs substantially from that which he received as to the words used, the order of events, the development of characters and the depiction of events, so that Follett’s edited version was copyrightable. . . .

However, the analysis of whether an editing or rewriting of an existing manuscript is copyrightable should not control the Lanham Act issue presented here. . . . Although an edited version would apparently be copyrightable so long as the editor’s alterations were more than “merely trivial,” it could still be misleading to designate that editor as the principal author of the work. Thus the fact that Follett sought and might have been entitled to obtain a copyright interest in his edited version is not dispositive of the issue before the court.

The parties have submitted conflicting evidence as to trade practices in the publishing industry. Meredith and Arbor House contend that if an individual makes a contribution to a literary work which bears certain indicia of authorship, that person can be described as an author and the form of attribution rests within the discretion of the publisher. Follett, New American and Morrow have presented evidence that even the substantial revisions performed by Follett amount to no more than what is customarily performed by freelance editors. They contend that such alterations rarely, if ever, result in the editor’s receiving authorship credit.

These industry practices are largely irrelevant to the issues in this case. Even if an attribution of authorship were consistent with industry practices, it would nevertheless be illegal under the Lanham Act if it misrepresented the contribution of the person designated as author.

The key issue, then, is whether the designation of authorship which Arbor House proposes to utilize on the cover of *The Gentlemen of 16 July* constitutes a violation of section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). . . . Section 43(a) is designed to provide a statutory cause of action for false description or advertisement of goods by any person likely to be injured by such description or advertising. . . . In order to determine whether a description or representation is false, a court should first assess the meaning of particular representations and then determine whether the claims made are false. . . . Where a description concerning goods is unambiguous, the court can grant relief based on its own findings of falsity without resort to evidence of the reaction of consumers of the

goods. . . . Moreover, in order to obtain injunctive relief under the Lanham Act, a plaintiff need only establish a “likelihood of confusion or a tendency to mislead.” . . .

The attribution of authorship of *The Gentlemen of 16 July* as designated on the cover and title page of the book and in Arbor House’s advertisements, contains an unambiguous representation that Follett is the principal author of the book. The name Ken Follett is printed in bold typeface approximately 15 mm. high. The subtitle, “with Rene Louis Maurice,” is printed in much smaller type and is only 6 mm. in height. Above Ken Follett’s name, the notation “by the author of TRIPLE and EYE OF THE NEEDLE” appears in type 4 mm. high. The name Ken Follett appears on the spine of the book unaccompanied by any reference to “Rene Louis Maurice.” This attribution clearly indicates that Ken Follett is the principal author of the book.

The concept of authorship is elusive and inexact. Although I do not presuppose to offer a definitive analysis of qualities which give rise to authorship, some such definition is essential to a resolution of the issue before the court. The parties have cited no cases in which the concept of authorship has been carefully dissected, and this court has discovered none.

Arbor House and Meredith contend that Follett is the principal author of *The Gentlemen of 16 July* because of his substantial contribution to the form of the book. The actual words used in the final draft were supplied in large measure by Follett. Follett altered the method of telling the story by shifting the chronology and removing flashbacks. The characters are more vividly portrayed in Follett’s edited version than in the draft he received. Follett has modulated the unfolding of events carefully in order to achieve what Fine described as “narrative drive” and to enhance the dramatic effect of the plot. Follett’s contribution bears certain indicia of authorship. His alterations were substantial, and the finished product bears the mark of his style and craftsmanship.

Yet, these refinements are not sufficient to render Follett the principal author of the book. Authorship connotes something more than style, form and narrative approach. It includes a special element of creativity, of the definition of scope and content. In this case, Follett received a fixed plot, a cast of characters and a set of themes and reworked these elements to make them more palatable and comprehensible to the intended audience. He neither conceived the framework or format of the book, nor played a substantial role in selecting the material to be included. Almost every significant occurrence, personality and theme can be traced directly to the materials from which Follett worked.

As a result, although Follett’s revisions may have been more substantial than those which an editor would ordinarily perform in correcting, polishing and revising, it is misleading to depict him as the principal author of *The Gentlemen of 16 July*. His contributions display none of the special creative attributes which are associated with authorship. Thus, the representation that Follett is the principal author of the book is literally false. . . .

The Lanham Act . . . is designed not only to vindicate “the author’s personal right to prevent the presentation of his work to the public in a distorted form,” . . . but also to protect the public and the artist from misrepresentations of the artist’s contribution to a finished work.

Based on the facts found and legal conclusions reached, judgment will be granted in favor of Follett, Morrow and New American. Although the court must proceed cautiously in dictating the form of presentation of *The Gentlemen of 16*

July, some accommodation is essential to assure that the public will not be misled by the attribution of authorship, yet protect Arbor House's legitimate commercial interests in publication of the work. Arbor House will be required to give equal attribution to Rene Louis Maurice and Ken Follett, in that order, and to indicate on the cover and jacket that the work is non-fiction. . . .

King v. Innovation Books, 976 F.2d 824 (2d Cir. 1992)

MINER, CIRCUIT JUDGE

[The lower court granted famed author Stephen King preliminary injunction in favor of plaintiff-appellee Stephen King, agreeing with King that defendants had] falsely designated him as the originator of the motion picture "The Lawnmower Man., . . . The injunction, which prohibits any use of King's name "on or in connection with" the movie, encompasses two forms of credit to which King objected: (i) a possessory credit, describing the movie as "Stephen King's The Lawnmower Man," and (ii) a "based upon" credit, representing that the movie is "based upon" a short story by King. For the reasons that follow, we affirm the district court's order to the extent that it prohibits use of the possessory credit, but reverse the order to the extent that it prohibits use of the "based upon" credit.

Background

In 1970, King wrote a short story entitled "The Lawnmower Man" (the "Short Story") [which] involves Harold Parkette, a homeowner in the suburbs. Parkette begins to neglect his lawn after an incident in which the boy who usually mows his lawn mows over a cat. By the time Parkette focuses his attention again on his overgrown lawn, the boy has gone away to college. Parkette therefore hires a new man to mow his lawn. The lawnmower man turns out to be a cleft-footed, obese and vile agent of the pagan god Pan. The lawnmower man also is able to move the lawnmower psychokinetically—that is, by sheer force of mind.

After starting the lawnmower, the lawnmower man removes his clothing and crawls after the running mower on his hands and knees, eating both grass and a mole that the mower has run over. Parkette, who is watching in horror, phones the police. Using his psychokinetic powers, however, the lawnmower man directs the lawnmower after Parkette, who is chopped up by the lawnmower's blades after being chased through his house. The Short Story ends with the discovery by the police of Parkette's entrails in the birdbath behind the home. In 1978, King assigned to Great Fantastic Picture Corporation the motion picture and television rights for the Short Story. The assignment agreement, which provided that it was to be governed by the laws of England, allowed the assignee the "exclusive right to deal with the [Short Story] as [it] may think fit," including the rights

(i) to write film treatments [and] scripts and other dialogue versions of all descriptions of the [Short Story] and at all times to add to[,] take from[,] use[,] alter[,] adapt . . . and change the [Short Story] and the title[,] characters[,] plot[,] theme[,] dialogue[,] sequences and situations thereof. . . .

(ii) to make or produce films of all kinds . . . incorporating or based upon the [Short Story] or any part or parts thereof or any adaptation thereof.

In return, King received an interest in the profits of “each” film “based upon” the Short Story.

In February 1990, Great Fantastic transferred its rights under the assignment agreement to Allied [one of the defendants, another UK-based company, which] commissioned a screenplay for a feature-length film entitled “The Lawnmower Man.” The screenplay was completed by August 1990, and pre-production work on the movie began in January 1991. By February 1991, Allied began to market the forthcoming movie by placing advertisements in trade magazines and journals. The picture generally was described as “Stephen King’s The Lawnmower Man,” and as “based upon” a short story by King. Actual filming of the movie began in May 1991. About one month later, Allied, through its United States subsidiary, licensed New Line, a domestic corporation with offices in New York and California, to distribute the movie in North America. The licensing agreement was concluded in California, and a press release announcing the distribution deal was issued from that state as well. New Line initially paid \$250,000 for the distribution rights, with an additional \$2.25 million to be paid thereafter.

King learned of the forthcoming movie in early October 1991, from an article in a film magazine. He then contacted Rand Holston, an agent handling King’s film rights, in an attempt to gather information about the film; asked Chuck Verrill, his literary agent, to obtain a “rough cut” of the movie; and instructed Jay Kramer, his lawyer, to inform Allied that King did not like the idea of a possessory credit (a form of credit apparently portended by the article).

By letter dated October 9, 1991, Kramer advised Allied that King “did not want” a possessory credit to appear on the film. Kramer also requested a copy of the movie and the tentative movie credits King was to receive. In another letter to Allied dated October 21, 1991—written after Kramer secured a copy of the movie’s screenplay—Kramer advised that “we emphatically object” to the possessory credit contained in the screenplay, and noted that he had yet to receive a copy of the tentative credits.

It appears that King learned of New Line’s involvement with the film in November 1991. On King’s direction, Verrill contacted New Line for a copy of the film. Verrill was informed that a copy would not be available until January 1992. Verrill contacted New Line again on February 6, 1992, but this produced no copy of the film either. Kramer and Holston shortly advised New Line, in a February 18, 1992 telephone call with New Line’s President of Production Sara Risher, that King was “outraged” that the movie was being described as “Stephen King’s The Lawnmower Man.”

In a February 28, 1992 letter, Kramer again insisted to Risher that the possessory credit was a “complete misrepresentation,” and attached copies of the October 1991 letters sent to Allied. As of this time, New Line had paid the balance of the price due to Allied for purchase of the distribution rights, had expended about \$7.5 million in advertising and marketing costs, and had become committed to release the movie in theaters throughout North America.

On March 3, 1992—four days or so before release of the movie in theaters—King viewed a copy of the movie in a screening arranged by Allied and New Line. The protagonist of the two hour movie is Dr. Lawrence Angelo. Experimenting with chimpanzees, Dr. Angelo develops a technology, based on computer simulation, known as “Virtual Reality,” which allows a chimp to enter a three-dimensional computer environment simulating various action scenarios. Dr.

Angelo hopes to adapt the technology for human use, with the ultimate goal of accelerating and improving human intelligence.

Eventually, Dr. Angelo begins experimenting with his technology on Jobe, who mows lawns in Dr. Angelo's neighborhood and is referred to as "the lawnmower man." Jobe, a normal-looking young man, is simple and possesses a childlike mentality. Dr. Angelo is able greatly to increase Jobe's intellect with Virtual Reality technology. However, the experiment spins out of control, with Jobe becoming hostile and violent as his intelligence and mental abilities become super-human. In the build-up to the movie's climax, Jobe employs his newly acquired psychokinetic powers to chase Dr. Angelo's neighbor (a man named Harold Parkette) through his house with a running lawnmower, and to kill him. The police discover the dead man's remains in the birdbath behind his home, and, in the climax of the movie, Dr. Angelo destroys Jobe.

The film and advertising seen by King contained both possessory and "based upon" credits. On the evening of March 3, after viewing the film, King wrote to Holston:

I think *The Lawnmower Man* is really an extraordinary piece of work, at least visually, and the core of my story, such as it is, is in the movie. I think it is going to be very successful and I want to get out of the way. I want you to make clear to [the] trolls at New Line Pictures that I am unhappy with them, but I am shelving* any ideas of taking out ads in the trades or trying to obtain an injunction to stop New Line from advertising or exploiting the picture. I would like to talk to you late this week or early next about doing some brief interviews which will make my lack of involvement clear, but for the time being, I am just going to step back and shut up.

*At least for the time being.

In a March 23, 1992 letter, Kramer again advised Allied of King's "long standing objection" to the possessory credit, and also took note of "the apparent failure of [Allied] to inform New Line of Mr. King's objection until the movie was about to be released." However, no objection to the "based upon" credit ever was registered until May 20, 1992. From March through May 1992, New Line expended another \$2.5 million in promotion and entered into certain hotel movie and television commitments, as well as home video arrangements.

King initiated the instant suit on May 28, 1992, seeking damages as well as injunctive relief. He claimed that the possessory and "based upon" credits violated section 43(a) of the Lanham Act, see 15 U.S.C. § 1125(a), as well as the New York common law of unfair competition and contracts, the New York General Business Law, and the New York Civil Rights Law. A motion for preliminary injunction was made on June 3, and a hearing was held on June 29.

The district court agreed with King on all of his claims and granted the injunction on July 2, concluding that the possessory credit was false on its face, that the "based upon" credit was misleading, and that the irreparable harm element of a preliminary injunction action had been satisfied. The equitable defenses of laches, estoppel and waiver interposed by Allied and New Line were rejected.

The injunction prohibited use of King's name "on or in connection with" the motion picture, and by its terms encompassed both the possessory and "based upon" credits. The injunction applied to distribution of the film by Allied abroad

as well as by New Line in North America, either in theaters or on videocassette or on television. We granted appellants' application for a stay pending this expedited appeal, but conditioned the stay upon suspension of use of the possessory credit. At oral argument counsel for New Line informed us that the videocassettes of the movie now in circulation contain only the "based upon" credit.

Discussion

* * *

I. Likelihood of Success on the Merits . . .

A. The Possessory Credit

We perceive no error in the district court's conclusion that King is likely to succeed on the merits of his objection to the possessory credit [under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1988)]. The district court was entirely entitled to conclude, from the testimony at the preliminary injunction hearing, that a possessory credit ordinarily is given to the producer, director or writer of the film; and that the credit at a minimum refers to an individual who had some involvement in, and/or gave approval to, the screenplay or movie itself. In contrast to other films for which he has been given a possessory credit, King had no involvement in, and gave no approval of, "The Lawnmower Man" screenplay or movie.

Under the circumstances, therefore, the arguments advanced by [defendants] as to why the possessory credit is not false—that the other movie credits make clear that King was not the producer, director or writer of the film, and that King has in the past received a possessory credit where he merely approved in advance of the screenplay or movie—do not alter the conclusion that King is likely to succeed on his challenge to the possessory credit. Appellants also contend that King offered no evidence of public confusion in relation to the possessory credit. As will be detailed in our discussion of irreparable harm, however, there was some such evidence offered. In any event, as the district court recognized, no evidence of public confusion is required where, as is the case with the possessory credit, the attribution is false on its face. See *PPX Enterprises, Inc. v. Audiofidelity Enterprises, Inc.*, 818 F.2d 266, 272 (2d Cir. 1987) (citations omitted).

B. The "Based Upon" Credit

As the district court recognized, a "based upon" credit by definition affords more "leeway" than a possessory credit. The district court nevertheless concluded that the "based upon" credit at issue here is misleading and likely to cause confusion to the public, reasoning in essence that the "climactic scene from the Short Story is inserted into the film in a manner wholly unrelated to the Plot of the film," and that the credit "grossly exaggerates" the relationship between the Short Story and the film. While particular findings of fact are subject to the clearly erroneous standard of review, we have said that the weighing of factors in "the ultimate determination of the likelihood of confusion is a legal issue subject to de novo appellate review." *Hasbro, Inc. v. Lanard Toys, Ltd.*, 858 F.2d 70, 75–76 (2d Cir. 1988) (citations omitted) (Lanham Act trade mark claim). We believe that in so heavily weighing the proportion of the film attributable to the Short Story in the course of finding the "based upon" credit to be misleading

and confusing, the district court applied a standard without sufficient support in the testimony and applicable law.

John Breglio, an attorney of the law firm of Paul, Weiss, Rifkind, Wharton & Garrison specializing in entertainment law, testified as an expert witness for King. Breglio opined that the term “based upon,” in the context of royalty obligations under King’s assignment agreement, was not identical to the term “based upon” in a movie credit. After speaking of a test of “substantial similarity” between the literary work and movie, and opining that there was not substantial similarity between the Short Story and the film, Breglio went on to state that the industry standard for determining the meaning of a “based upon” movie credit is very similar to that used by copyright lawyers in examining issues of copyright infringement. Breglio further explained that this standard involved looking “at the work as a whole and how much protected material from the underlying work appears in the derivative work.”

Indeed, in cases of alleged copyright infringement it has long been appropriate to examine the quantitative and qualitative degree to which the allegedly infringed work has been borrowed from, and not simply the proportion of the allegedly infringing work that is made up of the copyrighted material. See *Harper & Row v. Nation Enterprises*, 471 U.S. 539, 565–66, 85 L. Ed. 2d 588, 105 S. Ct. 2218 (1985) (citing *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 56 (2d Cir.) (L. Hand, J.), cert. denied, 298 U.S. 669, 80 L. Ed. 1392, 56 S. Ct. 835 (1936)). Accordingly, the propriety of the “based upon” credit should have been evaluated with less emphasis on the proportion of the film attributable to the Short Story, and with more emphasis on the proportion, in quantitative and qualitative terms, of the Short Story appearing in the film. Where a movie draws in material respects from a literary work, both quantitatively and qualitatively, a “based upon” credit should not be viewed as misleading absent persuasive countervailing facts and circumstances. Our concern is the possibility that under the district court’s apparent approach, substantially all of a literary work could be taken for use in a film and, if unrelated ideas, themes and scenes are tacked on or around the extracted work, a “based upon” credit would be deemed misleading.

In the case before us, the apparent “core” of the ten page Short Story—a scene in which a character called “the lawnmower man” uses psychokinetic powers to chase another character through his house with a running lawnmower and thereby kill him—is used in the movie. In both the movie and the Short Story, the remains of the murdered man (who is named Harold Parkette in both works) are found in the birdbath by the police; the two police officers in both works have the same names and engage in substantially similar dialogue. As King himself described it, “the core of my story, such as it is, is in the movie.” The red lawnmower seen in the movie also appears to be as described in the Short Story. A brief reference to the Pan mythology of the Short Story appears in the movie as well; dialogue between Jobe and another character includes a reference to “Pan pipes of the little people in the grass.”

We recognize that several important and entertaining aspects of the Short Story were not used in the film, and that conversely the film contains a number of elements not to be found in the Short Story. However, when the resemblances between the Short Story and the motion picture at issue here are considered together, they establish to our satisfaction that the movie draws in sufficiently material respects on the Short Story in both qualitative and quantitative aspects.

Nor are there any persuasive countervailing facts or circumstances in the record to lead us away from the conclusion that the “based upon” credit is proper in this case. King himself apparently was not bothered much (if at all) by the “based upon” credit, in marked contrast to his sustained and strong objections to the possessory credit, until shortly before he initiated this suit. He has not pointed us to evidence in the record of industry or public perception of, or confusion over, the “based upon” credit beyond the thoughts offered by Breglio. Professor George Stade, Vice Chairman of the English Department at Columbia University and King’s other expert witness, did opine that, despite similarities, the movie was not based upon the Short Story. However, even Professor Stade indicated at one point in his testimony that “substantial” portions of the Short Story appear in the film.

In *Gilliam v. American Broadcasting Companies, Inc.*, 538 F.2d 14 (2d Cir. 1976), we found a violation of section 43(a) by the ABC television network, which had aired, under license from the BBC, the “Monty Python’s Flying Circus” programs of the British comedy group. Monty Python’s agreement with the BBC gave the comedy group substantial control over any editing by the BBC. See *id.* at 17. However, ABC on its own substantially edited the programs it aired under the BBC license, so as to eliminate many thematically essential and humorous portions of the original programs. See *id.* at 24–25 & n.12. King suggests, in disputing the legitimacy of the “based upon” credit, that Allied’s treatment of the Short Story is analogous to ABC’s editing in *Gilliam*.

However, at issue in *Gilliam* were original Monty Python programs which were edited by ABC and then rebroadcast as Monty Python’s work. We specifically noted that Monty Python was being “presented to the public as the creator of a work not [its] own, and [made] subject to criticism for work [it] has not done.” *Id.* at 24 (quotation omitted). While *Gilliam* certainly supports the view we have taken of the possessory credit, the case is not very helpful in evaluating the accuracy of a “based upon” credit, which by definition deals with altered and derivative works.

It is undoubtedly the case that King’s assignment agreement does not permit Allied to use King’s name fraudulently, and we express no view as to the degree of overlap between the term “based upon” in the King assignment agreement and the term “based upon” in a theatrical credit. However, we do note that the agreement contemplates substantial alterations to the Short Story, and even obligates Allied to give King credit in the case of a film “based wholly or substantially upon” the Short Story. We think that King would have cause to complain if he were not afforded the “based upon” credit.

II. Irreparable Harm

As the district court observed, a presumption of irreparable harm arises in Lanham Act cases once the plaintiff establishes likelihood of success on a claim of literal falseness, as King has established with respect to the possessory credit. . . . Nothing in the record persuades us that the district court erred in concluding that this presumption was not rebutted.

Appellants contend that any presumption of irreparable injury was rebutted because King delayed in seeking relief. However, the greatest conceivable delay attributable to King is about eight months: from early October 1991, when he first learned of the movie, to early June 1992, when he moved for a preliminary

injunction. During that time, however, King, through his agents, contacted Allied and New Line and repeatedly objected to any use of a possessory credit, and attempted to obtain the screenplay, tentative credits and film for viewing. This is not conduct that undercuts a sense of urgency or of an imminent threat, and indeed the circumstances in this case contrast with those in which we have found a delay negating the presumption of irreparable harm.

In *Citibank, N.A. v. Citytrust*, 756 F.2d 273 (2d Cir. 1985), for example, we held that an irreparable harm presumption was negated where New York's Citibank delayed bringing suit for nine months after having notice that Connecticut's Citytrust intended to open a branch in the New York area. We pointed out that Citibank made no effort to verify the opening of Citytrust's branch, made no objection concerning the branch, and had made no real objection to Citytrust's advertising in New York media markets in past years. . . . Also to be considered is that a great deal of King's alleged delay was attributable to problems in acquiring a copy of the film from appellants. See *Horgan v. MacMillan, Inc.*, 789 F.2d 157, 164 (2d Cir. 1986) (expressing doubt that plaintiff delayed unduly in seeking preliminary injunctive relief where only "general intentions" of alleged copyright infringer were known and plaintiff had trouble obtaining advance copy of alleged infringer's work).

The March 3 letter written by King to Rand Holston, in which King indicated that he was impressed by the movie and that he was "shelving" legal action, together with apparently similar remarks made by King to counsel at that time, could be viewed as countering an irreparable harm presumption. However, the district court did not accept this argument, and we are unable to find error in this under all the circumstances. While King refers in the letter to shelving action against New Line's advertising of the picture, King does not say in the letter that he is shelving action against Allied or action in relation to the credits appearing in the movie itself. Further, because of the references in the letter to "at least for the time being" and "at this time," King's reactions as of March 3 could be viewed as tentative in nature. Indeed, shortly after King's March 3 letter was written, Kramer again wrote to Allied to reiterate King's "long standing objection" to the movie's possessory credit.

Appellants also suggest that the presumption of irreparable harm was rebutted because King himself enjoyed the movie, continues to be a popular literary figure, and was unable to specify particular financial injury. However, we have observed that the irreparable harm in cases such as this often flows not so much from some specific reduction "in fact" to an individual's name or reputation, but rather from the wrongful attribution to the individual, in the eye of the general public, of responsibility for actions over which he or she has no control. . . .

In this connection, King testified to the obvious point that his name and artistic reputation are his major assets, and offered into evidence certain unfavorable reviews of the movie. These reviews tended to discuss the movie in possessory terms and portray the work as a kind of failure on the part of King personally—persuasive evidence of the type of damage and confusion caused by the possessory credit. One reviewer, for instance, who thought the movie uninspiring, commented sarcastically: "Coming next week to a theater near you: Stephen King's Grocery List." Another review began with the statement that "Steven [sic] King's latest film, *The Lawnmower Man*, continues to reinforce the impression that he and Hollywood just don't work well together." . . .

Conclusion

The order of the district court granting a preliminary injunction is affirmed to the extent it prohibits use of the possessory credit, but reversed to the extent it prohibits use of a “based upon” credit.

Artists Visual Rights Act of 1990, Copyright Act §§ 106A and 101 (17 U.S.C. §§ 106A and 101)

§106A. Rights of certain authors to attribution and integrity

(a) Rights of attribution and integrity. . . . [T]he author of a work of visual art—

(1) shall have the right— . . . (B) to prevent the use of his or her name as the author of any work of visual art which he or she did not create;

(2) shall have the right to prevent the use of his or her name as the author of the work of visual art in the event of a distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation. . . .

ACQUISITION OF RIGHTS: RIGHTS OF PERSONALITY AND IDENTITY

3.1 INTRODUCTION

Every entertainment project begins at the same point: the acquisition of rights. It would seem at first that the only rights which need to be acquired are rights to various types of literary, artistic, dramatic or musical property, but—especially in today’s world of “docudramas” and “mockumentaries,” of “reality programming” and merchandising—personal rights are involved on a regular basis. In this chapter, we consider defamation, privacy, publicity, and rights akin to trademark and moral rights. In reading the cases in the various sections which follow, it is apparent that real-life situations do not divide so neatly into separate classifications. The invasion of a celebrity’s persona may require a response using not one but several legal theories. Thus, as considerations flow from one section to the next, it is important not only to study each theory in its own right, but to compare the various theories as well.

3.2 PERSONAL RIGHTS: DEFAMATION

3.2.1 In General

Defamation includes both libel and slander. The traditional distinctions between written defamation (libel) and oral (slander) have become obscured as new technologies take the spoken word and transfix it in a tangible medium. While important in a close scrutiny of the overall law of defamation, the often anomalous distinctions between libel and slander need not be explored for purposes of this discussion. We are concerned with defamation as it exists in the totality of elements that bear on personal rights of people engaged in or affected by the entertainment industries.

The overall definition of defamation is best framed by the Restatement (Second) Torts, § 558. This section provides:

To create liability for defamation there must be:

- (a) a false and defamatory statement concerning another;
- (b) an unprivileged publication to a third party;
- (c) fault amounting at least to negligence on the part of the publisher; and
- (d) either actionability of the statement irrespective of special harm or the existence of special harm caused by the publication.

A defamatory statement is one that likely will cause damage to the reputation of an individual. If the statement, although false, is so absurd that no one would believe it, there is no resulting damage to one's reputation. Or if a celebrity already has a certain reputation, a falsehood simply enforcing that reputation might not be defamatory. But this raises tricky questions and the defamatory nature of the statement may be problematical.

Moreover, California (for one) distinguishes between statements which are defamatory on their face (libel *per se*) and statements which are only defamatory when taken together with extrinsic material (libel *per quod*). Civil Code § 45 (a). In the former case, a plaintiff need demonstrate only shame, humiliation and embarrassment. In the latter case, a plaintiff must demonstrate "special damages." Civil Code § 48(a). "Much hinges, then, on whether a statement can be understood as libelous without the need of inducement (explanation of extrinsic facts or surrounding circumstances that make a statement defamatory) or innuendo (an interpretation of ambiguous language showing that it has a defamatory meaning.)" "*Peabody v. Barham*, 52 Cal.App. 2d 581 (1942); *Washer v. Bank of America*, 21 Cal.2d 822 (1943)." Julie J. Bisceglia, "Libel Per What?" *L.A. Daily Journal*, June 8, 1998, P. 7. If a defamatory statement is oral rather than written (i.e., slander), the plaintiff need not prove special damages.

On the issue of libel *per se* versus libel *per quod*, New York law is similar to that of California *Aronson v. Wiersma*, 65 N.Y.2d 592 (1985); *Newsday, Inc. v. C. L. Peck Contractor, Inc.*, 87 A.D.2d 236, 451 N.Y.S.2d 415 (1st Dept. 1982); *Sterling Doubleday Enterprises, L. P. v. Marro*, 238 A.D.2d 502, 656 N.Y.S.2d 676 (2d Dept. 1997).

3.2.2 Fact versus Opinion

Of course, it is axiomatic that only a statement of fact can be actionable. However, it is not always easy to pinpoint what is fact and what is opinion. However, it is not always easy to spot the difference. For example, in *Rinaldi v. Holt, Rinehart & Winston, Inc.*, 42 N.Y.2d 369 (1977), *cert. denied*, 434 U.S. 1969, an article entitled "The Ten Worst Judges in New York" was not defamatory in stating that judges were "incompetent," but could be defamatory in stating that they were "probably corrupt." On the other hand, in *Milkovich v. Lorain Journal*, 497 U.S. 1, 1990 U.S. LEXIS 3296 (1990), a statement by a sportswriter in his "TD Says" column that a high school wrestling coach had lied at a hearing into an altercation at a wrestling match was seen as implying that the coach had perjured himself, and therefor as constituting a factual statement rather than an expression of opinion. In *Daniel Goldreyer, Ltd. v. Dow Jones & Company, Inc.*, 678 Misc.2d 453, 1998 N.Y. Misc. LEXIS 424 (Sup. Ct. N.Y. Co. 1998), the court held that an art conservator was entitled to a jury trial on the issue of whether he had been defamed by (among others) an article in the Wall Street Journal (entitled "For That Price, Why Not Have The Whole Museum Repainted?") which criticized

plaintiff's \$270,000 restoration of a vandalized painting, accusing the conservator of ruining the painting. In part, the court's decision was based upon the absence of "sources" for certain comments in the *WSJ* article, and the omission of information favorable to the plaintiff which had been obtained by the reporter, both of which raised the question of whether the *WSJ* had been "grossly irresponsible." However, an "op ed" piece in *The New York Times*, entitled "High Tech Watergate," by former U.S. Attorney General Elliot Richardson, was held not to have libelled the plaintiff. *Brian v. Richardson*, 87 N.Y. 2d 46 (1995). And in *Moyer v. Amador Valley JUHSD*, 225 Cal.App. 3rd 720, 275 Cal. Rptr. 494 (1st Dist. 1990), it was not libelous for a school newspaper to state that the plaintiff was the "worst teacher" in the school, that he "babbled," and that he was "terrorized" when a smoke bomb went off in class.

3.2.3 Falsity

Just as it is often difficult to determine what is fact and what is opinion, so, too, it is often difficult to determine what is true and what is false. In the following two cases, we encounter (in *Clark v. ABC*) the problem which arises from ambiguity, that is, where a statement is capable of more than one meaning, one of which is defamatory, and (in *Masson v. New Yorker*) the question which arises when material is presented as a quotation but is paraphrased or otherwise incomplete.

Clark v. American Broadcasting Companies, 684 F.2d 1208 (6th Cir. 1982)

KEITH, CIRCUIT JUDGE

This appeal raises the question of whether summary judgment was providently granted in this defamation action. . . .

This defamation action arises from an ABC broadcast which aired on April 22, 1977. The broadcast was an hour long "ABC News Closeup" entitled: "Sex for Sale: The Urban Battleground" ("Broadcast"). The Broadcast addressed the effects of the proliferation of commercialized sex: 1) the damage that sex-related businesses have on America's cities, towns, and neighborhoods; 2) the resurgence of street prostitution caused by these sex businesses; and 3) how the sex businesses flourish from prostitution. The Broadcast featured interviews which focused on various cities, including Boston, New York, and Detroit.

Act III focused on street prostitution in these cities. One segment of Act III focused on the devastating effect of street prostitution on a middle class neighborhood in Detroit. Residents of the neighborhood were interviewed, and several women were photographed as they walked down a public street.

The first woman was white. She was obese, and approximately fifty years old. She wore a hat, and carried a shopping bag in each hand. The second woman carried a grocery bag. She was black. The camera followed her a few minutes as she exited a grocery store and walked down the street. She was slightly obese, wore large-framed glasses, and appeared to be at least forty years old. The following comments were made while these two women appeared on the screen:

According to residents, and Detroit police records, most of the prostitutes' customers or johns were white; the street prostitutes were often black. This integrated middle class neighborhood became a safe meeting place for prostitutes and 'johns'.

The plaintiff, a black woman, was the third woman photographed walking down the street. The photographs were frontal close-ups. Plaintiff's face was clearly visible. The plaintiff appeared to be in her early to mid-twenties. She was attractive, slim, and stylishly dressed. She wore large earrings and had long hair which was pulled up above her head. Apparently, Plaintiff was unaware that she was being photographed. As Plaintiff appeared, the narrator made the following remarks:

But for black women whose homes were there, the cruising white customers were an especially humiliating experience.

Sheri Madison, a black female resident of the neighborhood plagued by prostitution, appeared on the screen seconds after Plaintiff. She stated:

Almost any woman who was black and on the street was considered to be a prostitute herself. And was treated like a prostitute.

Subsequently, Plaintiff initiated an action in the Wayne County Circuit Court against ABC claiming defamation and invasion of privacy. She claimed that the Broadcast depicted her as a "common street prostitute." It is uncontroverted that Plaintiff has never been a prostitute. In fact, Plaintiff is married and has one son. ABC removed the case to federal district court pursuant to the court's diversity jurisdiction.

In a deposition, Plaintiff testified concerning her reactions as she, her husband, and 2 year old son viewed the Broadcast. The Broadcast shocked her. Plaintiff believed that she had been portrayed as a prostitute. She also testified that several friends, acquaintances, and relatives phoned Plaintiff during and following the Broadcast. Each of these persons thought that the Broadcast portrayed her as a street prostitute.

Plaintiff also testified that she was propositioned, that church members shunned her, and that acquaintances confronted her with allegations that she was a prostitute. Moreover, after the Broadcast two potential employers refused to hire Plaintiff because they feared her employment would hurt their businesses. . . .

I. Defamation Claim

On appeal, Plaintiff argues that the district court erred in granting summary judgment for ABC since there existed a factual question as to whether the broadcast was defamatory. We agree.

In granting ABC's motion for summary judgment, the district court concluded that the Broadcast was not libelous. The court reasoned that nothing in Plaintiff's appearance suggested that her activity paralleled that of a street prostitute. . . .

As noted, the district court granted summary judgment in favor of ABC because the court concluded that the broadcast was not libelous. The district court applied an incorrect standard. The district court should have granted summary judgment for ABC only if the Broadcast was not reasonably capable of a defamatory meaning. . . .

The portrayal of Plaintiff as a prostitute would clearly be defamatory under Michigan law. Prostitutes are considered immoral and socially undesirable. Moreover, as the Broadcast indicated, the presence of street prostitution in a neigh-

borhood causes devastating social problems. There is often a significant increase in the number of assaults and robberies. Street prostitution is also accompanied by the presence of illegal drug traffic.

Therefore, the portrayal of an individual as a prostitute would damage her reputation and tend to cause third persons not to associate with that individual.

In this case, Plaintiff's appearance in the Broadcast was capable of at least two interpretations, one defamatory and the other non-defamatory. That the Broadcast is reasonably capable of a non-defamatory meaning is clear from the district court's reasoning. The district court focused solely on whether Plaintiff's behavior during the Broadcast was similar to the stereotypical actions commonly associated with prostitution. This stereotypical behavior includes "[wearing] suggestive clothing, suggestive walking, overt acts of solicitation, and the like." Plaintiff was not engaged in any of these actions. Consequently, the court concluded that Plaintiff's appearance in the Broadcast was not libelous.

Plaintiff's participation in the Broadcast is also reasonably capable of a defamatory meaning. The district court should also have viewed Plaintiff's appearance in the context of the focus on street prostitution. Viewed in this manner, Plaintiff was either portrayed as a prostitute or could reasonably be mistaken for a prostitute.

As noted earlier, Plaintiff was photographed as she walked down the street. Prior to Plaintiff's appearance, the commentator noted that the street prostitutes were often black while their customers were often white. Moreover, the commentator noted that this neighborhood was a safe meeting place for the black street prostitutes and their white customers. As the commentator spoke two women were pictured. The first woman was white. She was obese, at least fifty years old and carried a shopping bag in each hand. This woman appeared to be one of the residents of the middle class neighborhood. The second woman shown was black, slightly obese, wore large-framed glasses, and carried a bag of groceries as she exited a store. Although this woman was black, she also appeared to be one of the residents of the middle class neighborhood. Plaintiff's picture appeared immediately following the appearance of these two matrons.

The contrast between Plaintiff's appearance and that of the two matrons is striking. Plaintiff is black and appeared to be in her early to mid-twenties. She was slim, attractive, stylishly dressed, and wore large earrings. When her appearance is juxtaposed with that of the two matrons, it is not clear whether she is a resident of this middle class neighborhood or one of the street prostitutes who plagued this community. Arguably, this ambiguity is clarified by the commentator's statement that the presence of the cruising white customers was a humiliating experience for the black women, who resided in the neighborhood. However, assuming *arguendo* that this statement tends to clarify the ambiguity, this partial clarification is negated by an interview which followed Plaintiff's appearance.

Immediately following Plaintiff's appearance, Sheri Madison, a resident of this neighborhood, appears on the screen and states: "Almost any black woman on the streets was considered to be a prostitute herself, and was treated as a prostitute." Thus, it is unclear whether Plaintiff is one of those middle class women erroneously considered to be a prostitute or is, in fact, a prostitute.

The ambiguity created when Plaintiff's appearance is viewed within the context of Act III's focus on the effect of street prostitution on a Detroit middle

class neighborhood renders the Broadcast susceptible to both a defamatory and a non-defamatory meaning.

Given the district court's own analysis of the question of whether the broadcast was defamatory, the court's decision to grant summary judgment for ABC is difficult to reconcile. . . .

The Broadcast was reasonably capable of two meanings, one defamatory and the other non-defamatory. Consequently, it was for the jury to decide whether the Broadcast was understood as being defamatory. . . .

III. First Amendment Principles

. . . [W]e must determine whether any constitutional principle requires Plaintiff to prove that ABC acted with actual malice as defined in *New York Times v. Sullivan*, 376 U.S. 254, 84 S.Ct. 710, 11 L.Ed.2d 686. For the reasons below, we hold that no constitutional principle requires that Plaintiff prove actual malice.

The Broadcast raises the factual question of whether Plaintiff was depicted as a prostitute or could have reasonably been mistaken for a prostitute. An editorial opinion held by ABC, no matter how pernicious, would be entitled to First Amendment protection. *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 339, 94 S.Ct. 2997, 3006, 41 L.Ed.2d 789 (1974).

The First Amendment, however, does not afford ABC the same absolute protection for misstatements of fact. "[T]here is no constitutional value in false statements of fact." *Id.* at 340, 94 S.Ct. at 3007. Nevertheless, the Supreme Court has afforded publishers and broadcasters limited protection from liability in defamation actions. In *New York Times v. Sullivan*, 376 U.S. 254, 84 S.Ct. 710, 11 L.Ed.2d 686, the Supreme Court held that publishers and broadcasters could not be liable in defamation actions brought by public officials unless the publisher or broadcaster acted with actual malice. It is clear that Plaintiff is not a public official.

The Court extended the *New York Times v. Sullivan* malice requirement to libel suits brought by public figures. *Curtis Publishing Co. v. Butts*, 388 U.S. 130, 87 S.Ct. 1975, 18 L.Ed.2d 1094 (1967). "[Public figures] may recover from injury to reputation only on clear and convincing proof that the defamatory falsehood was made with knowledge of its falsity or with reckless disregard for the truth." *Gertz*, 418 U.S. at 342, 94 S.Ct. at 3008. . . .

Plaintiff is not a public figure for all purposes. "Absent clear evidence of general fame or notoriety in the community, and pervasive involvement in the affairs of society, an individual should not be deemed a public personality for all aspects of [her] life." *Id.* at 352, 94 S.Ct. at 3013. Plaintiff has no general fame or notoriety. . . .

Plaintiff also cannot reasonably be regarded as a limited public figure. *Gertz* establishes a two-pronged analysis to determine if an individual is a limited public figure. First, a "public controversy" must exist. *Gertz*, 418 U.S. at 345, 94 S.Ct. at 3009. Second, the nature and extent of the individual's participation in the particular controversy must be ascertained. . . .

In this case, the effects of sex-related businesses in general, and the particular effects of street prostitution on a middle class Detroit neighborhood, may be the kind of "public controversies" referred to in *Gertz*. The public's interest in the effects of prostitution in a Detroit neighborhood are arguably greater than the divorce proceedings of a wealthy couple. *Cf. Firestone*, 424 U.S. 448, 96 S.Ct. 958, 47 L.Ed.2d 154.

Even though the subject matter of the Broadcast may be the type of “public controversy” recognized in *Gertz*, the nature and extent of Plaintiff’s participation in this public controversy must still be examined. The nature and extent of an individual’s participation is determined by considering three factors: first, the extent to which participation in the controversy is voluntary; second, the extent to which there is access to channels of effective communication in order to counteract false statements; and third, the prominence of the role played in the public controversy. . . . Applying these three factors to the instant case, we conclude that Plaintiff is not a limited public figure.

First, Plaintiff did not voluntarily participate in the public controversy surrounding the effects of street prostitution on a middle class neighborhood in Detroit. . . .

Second, Plaintiff has no access to channels of effective communication in order to counteract the false statements. Following the Broadcast, the press has not clamored to interview her. . . .

Finally, as noted previously, Plaintiff played no prominent role in the subject matter which was the focus of Act III. In essence, Plaintiff was merely an incidental figure in the discussion of street prostitution. Therefore, the airing of Plaintiff’s picture as she walked down the street was not relevant to any examination of the effects of street prostitution on a Detroit neighborhood.

The nature and extent of Plaintiff’s involvement in the subject matter of Act III leads to the inescapable conclusion that she was not a limited public figure. . . .

IV. Conclusion

We conclude that the Broadcast was capable of a defamatory meaning. Because the Broadcast was susceptible to two interpretations, one defamatory and the other non-defamatory, summary judgment for ABC was improvidently granted. Accordingly, we reverse and remand the case to the district court for proceedings consistent with this opinion.

BAILEY BROWN, SENIOR CIRCUIT JUDGE (dissenting)

I respectfully dissent. . . . [A]fter viewing the relevant parts of the documentary several times, I believe that, contrary to the majority opinion, the district court was correct in its determination that the portrayal of Mrs. Clark could not reasonably be construed as defamatory. . . .

NOTE

Summary judgment for the publisher was reversed, and the case was remanded for trial, in *Kaelin v. Globe Communications Corp.*, 162 F.3d 1036, 1998 U.S. App. LEXIS 32594 (9th Cir. 1998). A tabloid had run an article concerning Kaelin, the famous house guest in the O. J. Simpson case, in which the *National Examiner* stated in a subhead (i.e., secondary headline) that Kaelin’s friends had said that he feared that he would be prosecuted for perjury. The headline, however, read “COPS THINK KATO DID IT!” Although the editor conceded that he was concerned that the headline might not accurately reflect the story’s content, he felt that the subhead clarified the meaning of “it.” On these facts, the Court of Appeals held, a jury could find that the *Examiner* had acted with knowledge of the inaccuracy of the headline, or with reckless disregard, i.e., actual malice. The subhead did not necessarily explain the headline. Thus, as in the Clark case, two meanings were possible.

Masson v. New Yorker Magazine, Inc., 501 U.S. 496 (1991)

KENNEDY, JUSTICE

In this libel case, a public figure claims he was defamed by an author who, with full knowledge of the inaccuracy, used quotation marks to attribute to him comments he had not made. The First Amendment protects authors and journalists who write about public figures by requiring a plaintiff to prove that the defamatory statements were made with what we have called “actual malice,” a term of art denoting deliberate or reckless falsification. We consider in this opinion whether the attributed quotations had the degree of falsity required to prove this state of mind, so that the public figure can defeat a motion for summary judgment and proceed to a trial on the merits of the defamation claim.

I

Petitioner Jeffrey Masson trained at Harvard University as a Sanskrit scholar, and in 1970 became a professor of Sanskrit & Indian Studies at the University of Toronto. He spent eight years in psychoanalytic training, and qualified as an analyst in 1978. Through his professional activities, he came to know Dr. Kurt Eissler, head of the Sigmund Freud Archives, and Dr. Anna Freud, daughter of Sigmund Freud and a major psychoanalyst in her own right. The Sigmund Freud Archives, located at Maresfield Gardens outside of London, serves as a repository for materials about Freud, including his own writings, letters, and personal library. The materials, and the right of access to them, are of immense value to those who study Freud and his theories, life, and work.

In 1980, Eissler and Anna Freud hired petitioner as projects director of the archives. After assuming his post, petitioner became disillusioned with Freudian psychology. In a 1981 lecture before the Western New England Psychoanalytical Society in New Haven, Connecticut, he advanced his theories of Freud. Soon after, the board of the archives terminated petitioner as projects director.

Respondent Janet Malcolm is an author and a contributor to respondent *New Yorker*, a weekly magazine. She contacted petitioner in 1982 regarding the possibility of an article on his relationship with the archives. He agreed, and the two met in person and spoke by telephone in a series of interviews. Based on the interviews and other sources, Malcolm wrote a lengthy article. One of Malcolm’s narrative devices consists of enclosing lengthy passages in quotation marks, reporting statements of Masson, Eissler, and her other subjects.

During the editorial process, Nancy Franklin, a member of the fact-checking department at *The New Yorker*, called petitioner to confirm some of the facts underlying the article. According to petitioner, he expressed alarm at the number of errors in the few passages Franklin discussed with him. Petitioner contends that he asked permission to review those portions of the article which attributed quotations or information to him, but was brushed off with a never-fulfilled promise to “get back to [him].” Franklin disputes petitioner’s version of their conversation.

The New Yorker published Malcolm’s piece in December 1983, as a two-part series. In 1984, with knowledge of at least petitioner’s general allegation that the article contained defamatory material, respondent Alfred A. Knopf, Inc., published the entire work as a book, entitled *In the Freud Archives*.

Malcolm’s work received complimentary reviews. But this gave little joy to

Masson, for the book portrays him in a most unflattering light. According to one reviewer:

Masson the promising psychoanalytic scholar emerges gradually, as a grandiose egotist—mean-spirited, self-serving, full of braggadocio, impossibly arrogant and, in the end, a self-destructive fool. But it is not Janet Malcolm who calls him such: his own words reveal this psychological profile—a self-portrait offered to us through the efforts of an observer and listener who is, surely, as wise as any in the psychoanalytic profession. Coles, *Freudianism Confronts Its Malcontents*, Boston Globe, May 27, 1984, pp. 58, 60.

Petitioner wrote a letter to the *New York Times Book Review* calling the book “distorted.” In response, Malcolm stated:

Many of [the] things Mr. Masson told me (on tape) were discreditable to him, and I felt it best not to include them. Everything I do quote Mr. Masson as saying was said by him, almost word for word. (The “almost” refers to changes made for the sake of correct syntax.) I would be glad to play the tapes of my conversation with Mr. Masson to the editors of The Book Review whenever they have 40 or 50 short hours to spare.

Petitioner brought an action for libel under California law in the United States District Court for the Northern District of California. During extensive discovery and repeated amendments to the complaint, petitioner concentrated on various passages alleged to be defamatory, dropping some and adding others. The tape recordings of the interviews demonstrated that petitioner had, in fact, made statements substantially identical to a number of the passages, and those passages are no longer in the case. We discuss only the passages relied on by petitioner in his briefs to this Court.

Each passage before us purports to quote a statement made by petitioner during the interviews. Yet in each instance no identical statement appears in the more than 40 hours of taped interviews. Petitioner complains that Malcolm fabricated all but one passage; with respect to that passage, he claims Malcolm omitted a crucial portion, rendering the remainder misleading.

(a) “Intellectual Gigolo.” Malcolm quoted a description by petitioner of his relationship with Eissler and Anna Freud as follows:

Then I met a rather attractive older graduate student and I had an affair with her. One day, she took me to some art event, and she was sorry afterward. She said, “Well, it is very nice sleeping with you in your room, but you’re the kind of person who should never leave the room—you’re just a social embarrassment anywhere else, though you do fine in your own room.” And you know, in their way, if not in so many words, Eissler and Anna Freud told me the same thing. They like me well enough “in my own room.” They loved to hear from me what creeps and dolts analysts are. I was like an intellectual gigolo—you get your pleasure from him, but you don’t take him out in public. . . . In the Freud Archives 38.

The tape recordings contain the substance of petitioner’s reference to his graduate student friend, App. 95, but no suggestion that Eissler or Anna Freud considered him, or that he considered himself, an “intellectual gigolo.” Instead, petitioner said:

They felt, in a sense, I was a private asset but a public liability. . . . e.g. They liked me when I was alone in their living room, and I could talk and chat and tell them the truth about things and they would tell me. But that I was, in a sense, much too junior within the hierarchy of analysis, for these important training analysts to be caught dead with me. *Id.*, at 104.

(b) “Sex, Women, Fun.” Malcolm quoted petitioner as describing his plans for Maresfield Gardens, which he had hoped to occupy after Anna Freud’s death:

It was a beautiful house, but it was dark and sombre and dead. Nothing ever went on there. I was the only person who ever came. I would have renovated it, opened it up, brought it to life. Maresfield Gardens would have been a center of scholarship, but it would also have been a place of sex, women, fun. It would have been like the change in *The Wizard of Oz*, from black-and-white into color. In the Freud Archives 33.

The tape recordings contain a similar statement, but in place of the references to “sex, women, fun” and *The Wizard of Oz*, petitioner commented:

It is an incredible storehouse. I mean, the library, Freud’s library alone is priceless in terms of what it contains: all his books with his annotations in them; the Schreber case annotated, that kind of thing. It’s fascinating. App. 127.

Petitioner did talk, earlier in the interview, of his meeting with a London analyst:

I like him. So, and we got on very well. That was the first time we ever met and you know, it was buddy-buddy, and we were to stay with each other and [laughs] we were going to pass women on to each other, and we were going to have a great time together when I lived in the Freud house. We’d have great parties there and we were [laughs]— . . . going to really, we were going to live it up.

[Justice Kennedy then examined several other instances where conversations were significantly altered in the quotes in Malcolm’s article.]

Malcolm submitted to the District Court that not all of her discussions with petitioner were recorded on tape, in particular conversations that occurred while the two of them walked together or traveled by car, while petitioner stayed at Malcolm’s home in New York, or while her tape recorder was inoperable. She claimed to have taken notes of these unrecorded sessions, which she later typed, then discarding the handwritten originals. Petitioner denied that any discussion relating to the substance of the article occurred during his stay at Malcolm’s home in New York, that Malcolm took notes during any of their conversations, or that Malcolm gave any indication that her tape recorder was broken. . . .

II

A

Under California law, “libel is a false and unprivileged publication by writing . . . which exposes any person to hatred, contempt, ridicule, or obloquy, or which causes him to be shunned or avoided, or which has a tendency to injure him in his occupation.” Cal. Civ. Code Ann. §45 (West 1982). False attribution of state-

ments to a person may constitute libel, if the falsity exposes that person to an injury comprehended by the statute. . . .

Actual malice under the *New York Times* standard should not be confused with the concept of malice as an evil intent or a motive arising from spite or ill will. . . . In place of the term actual malice, it is better practice that jury instructions refer to publication of a statement with knowledge of falsity or reckless disregard as to truth or falsity. This definitional principle must be remembered in the case before us.

B

In general, quotation marks around a passage indicate to the reader that the passage reproduces the speaker's words verbatim. They inform the reader that he or she is reading the statement of the speaker, not a paraphrase or other indirect interpretation by an author. By providing this information, quotations add authority to the statement and credibility to the author's work. Quotations allow the reader to form his or her own conclusions and to assess the conclusions of the author, instead of relying entirely upon the author's characterization of her subject.

A fabricated quotation may injure reputation in at least two senses, either giving rise to a conceivable claim of defamation. First, the quotation might injure because it attributes an untrue factual assertion to the speaker. An example would be a fabricated quotation of a public official admitting he had been convicted of a serious crime when in fact he had not.

Second, regardless of the truth or falsity of the factual matters asserted within the quoted statement, the attribution may result in injury to reputation because the manner of expression or even the fact that the statement was made indicates a negative personal trait or an attitude the speaker does not hold. John Lennon once was quoted as saying of the Beatles, "We're more popular than Jesus Christ now." *Time*, Aug. 12, 1966, p. 38. Supposing the quotation had been a fabrication, it appears California law could permit recovery for defamation because, even without regard to the truth of the underlying assertion, false attribution of the statement could have injured his reputation. Here, in like manner, one need not determine whether petitioner is or is not the greatest analyst who ever lived in order to determine that it might have injured his reputation to be reported as having so proclaimed.

A self-condemnatory quotation may carry more force than criticism by another. It is against self-interest to admit one's own criminal liability, arrogance, or lack of integrity, and so all the more easy to credit when it happens. This principle underlies the elemental rule of evidence which permits the introduction of statements against interest, despite their hearsay character. . . .

Of course, quotations do not always convey that the speaker actually said or wrote the quoted material. "Punctuation marks, like words, have many uses. Writers often use quotation marks, yet no reasonable reader would assume that such punctuation automatically implies the truth of the quoted material. . . .

The work at issue here, however, as with much journalistic writing, provides the reader no clue that the quotations are being used as a rhetorical device or to paraphrase the speaker's actual statements. To the contrary, the work purports to be nonfiction, the result of numerous interviews. At least a trier of fact could so conclude. The work contains lengthy quotations attributed to petitioner, and neither Malcolm nor her publishers indicate to the reader that the quotations

are anything but the reproduction of actual conversations. Further, the work was published in *The New Yorker*, a magazine which at the relevant time seemed to enjoy a reputation for scrupulous factual accuracy. These factors would, or at least could, lead a reader to take the quotations at face value. A defendant may be able to argue to the jury that quotations should be viewed by the reader as nonliteral or reconstructions, but we conclude that a trier of fact in this case could find that the reasonable reader would understand the quotations to be nearly verbatim reports of statements made by the subject.

C

The constitutional question we must consider here is whether, in the framework of a summary judgment motion, the evidence suffices to show that respondents acted with the requisite knowledge of falsity or reckless disregard as to truth or falsity. This inquiry in turn requires us to consider the concept of falsity; for we cannot discuss the standards for knowledge or reckless disregard without some understanding of the acts required for liability. We must consider whether the requisite falsity inheres in the attribution of words to the petitioner which he did not speak. . . .

We reject the idea that any alteration beyond correction of grammar or syntax by itself proves falsity in the sense relevant to determining actual malice under the First Amendment. An interviewer who writes from notes often will engage in the task of attempting a reconstruction of the speaker's statement. That author would, we may assume, act with knowledge that at times she has attributed to her subject words other than those actually used. Under petitioner's proposed standard, an author in this situation would lack First Amendment protection if she reported as quotations the substance of a subject's derogatory statements about himself.

Even if a journalist has tape-recorded the spoken statement of a public figure, the full and exact statement will be reported in only rare circumstances. The existence of both a speaker and a reporter; the translation between two media, speech and the printed word; the addition of punctuation; and the practical necessity to edit and make intelligible a speaker's perhaps rambling comments, all make it misleading to suggest that a quotation will be reconstructed with complete accuracy. The use or absence of punctuation may distort a speaker's meaning, for example, where that meaning turns upon a speaker's emphasis of a particular word. In other cases, if a speaker makes an obvious misstatement, for example by unconscious substitution of one name for another, a journalist might alter the speaker's words but preserve his intended meaning. And conversely, an exact quotation out of context can distort meaning, although the speaker did use each reported word. . . .

We conclude that a deliberate alteration of the words uttered by a plaintiff does not equate with knowledge of falsity . . . unless the alteration results in a material change in the meaning conveyed by the statement. The use of quotations to attribute words not in fact spoken bears in a most important way on that inquiry, but it is not dispositive in every case.

Deliberate or reckless falsification that comprises actual malice turns upon words and punctuation only because words and punctuation express meaning. Meaning is the life of language. And, for the reasons we have given, quotations may be a devastating instrument for conveying false meaning. . . .

The significance of the quotations at issue, absent any qualification, is to inform

us that we are reading the statement of petitioner, not Malcolm's rational interpretation of what petitioner has said or thought. Were we to assess quotations under a rational interpretation standard, we would give journalists the freedom to place statements in their subjects' mouths without fear of liability. By eliminating any method of distinguishing between the statements of the subject and the interpretation of the author, we would diminish to a great degree the trustworthiness of the printed word and eliminate the real meaning of quotations. Not only public figures but the press doubtless would suffer under such a rule. Newsworthy figures might become more wary of journalists, knowing that any comment could be transmuted and attributed to the subject, so long as some bounds of rational interpretation were not exceeded. We would ill serve the values of the First Amendment if we were to grant near absolute, constitutional protection for such a practice. We doubt the suggestion that as a general rule readers will assume that direct quotations are but a rational interpretation of the speaker's words, and we decline to adopt any such presumption in determining the permissible interpretations of the quotations in question here.

III

A

We apply these principles to the case before us. . . .

Respondents argue that, in determining whether petitioner has shown sufficient falsification to survive summary judgment, we should consider not only the tape-recorded statements but also Malcolm's typewritten notes. We must decline that suggestion. To begin with, petitioner affirms in an affidavit that he did not make the complained of statements. The record contains substantial additional evidence, moreover, evidence which, in a light most favorable to petitioner, would support a jury determination under a clear and convincing standard that Malcolm deliberately or recklessly altered the quotations.

First, many of the challenged passages resemble quotations that appear on the tapes, except for the addition or alteration of certain phrases, giving rise to a reasonable inference that the statements have been altered. Second, Malcolm had the tapes in her possession and was not working under a tight deadline. Unlike a case involving hot news, Malcolm cannot complain that she lacked the practical ability to compare the tapes with her work in progress. Third, Malcolm represented to the editor in chief of *The New Yorker* that all the quotations were from the tape recordings. Fourth, Malcolm's explanations of the time and place of unrecorded conversations during which petitioner allegedly made some of the quoted statements have not been consistent in all respects. Fifth, petitioner suggests that the progression from typewritten notes, to manuscript, then to galleys provides further evidence of intentional alteration. Malcolm contests petitioner's allegations, and only a trial on the merits will resolve the factual dispute. But at this stage, the evidence creates a jury question whether Malcolm published the statements with knowledge or reckless disregard of the alterations.

B

We must determine whether the published passages differ materially in meaning from the tape-recorded statements so as to create an issue of fact for a jury as to falsity. . . .

C

Because of the Court of Appeals' disposition with respect to Malcolm, it did not have occasion to address petitioner's argument that the District Court erred in granting summary judgment to The New Yorker Magazine, Inc., and Alfred A. Knopf, Inc., on the basis of their respective relations with Malcolm or the lack of any independent actual malice. These questions are best addressed in the first instance on remand.

The judgment of the Court of Appeals is reversed, and the case is remanded for further proceedings consistent with this opinion.

WHITE, JUSTICE, joined by JUSTICE SCALIA, dissented in part:

... That there was at least an issue for the jury to decide on the question of deliberate or reckless falsehood does not mean that plaintiffs were necessarily entitled to go to trial. If, as a matter of law, reasonable jurors could not conclude that attributing to Masson certain words that he did not say amounted to libel under California law, i.e., "expose[d] [Masson] to hatred, contempt, ridicule, or obloquy, or which cause[d] him to be shunned or avoided, or which had a tendency to injure him in his occupation," Cal. Civ. Code Ann. 45 (West 1982), a motion for summary judgment on this ground would be justified. I would suppose, for example, that if Malcolm wrote that Masson said that he wore contact lenses, when he said nothing about his eyes or his vision, the trial judge would grant summary judgment for the defendants and dismiss the case. The same would be true if Masson had said "I was spoiled as a child by my Mother," whereas, Malcolm reports that he said "I was spoiled as a child by my parents." But if reasonable jurors could conclude that the deliberate misquotation was libelous, the case should go to the jury.

This seems to me to be the straightforward, traditional approach to deal with this case. Instead, the Court states that deliberate misquotation does not amount to *New York Times* malice unless it results in a material change in the meaning conveyed by the statement. This ignores the fact that, under *New York Times*, reporting a known falsehood—here the knowingly false attribution—is sufficient proof of malice. The falsehood, apparently, must be substantial; the reporter may lie a little, but not too much.

This standard is not only a less manageable one than the traditional approach, but it also assigns to the courts issues that are for the jury to decide. For the court to ask whether a misquotation substantially alters the meaning of spoken words in a defamatory manner is a far different inquiry from whether reasonable jurors could find that the misquotation was different enough to be libelous. In the one case, the court is measuring the difference from its own point of view; in the other it is asking how the jury would or could view the erroneous attribution. . . .

NOTE

In addition to the "two meanings" principle enunciated in *Clark v. American Broadcasting Companies*, the Eighth Circuit (retired Supreme Court Justice Byron White sitting by designation) has held that a plaintiff has a cause of action (and that the truth defense is unavailable to a news medium) where what the defendant states is true but the defendant omits important facts or juxtaposes the facts presented in such a way as to imply a defamatory connection. *Toney v. WCCO Television*, 85 F.3d 383 (8th Cir. 1996).

3.2.4 Of and Concerning

In addition to demonstrating that the defendant has published a false statement of fact, it must be shown that such statement has to do with the plaintiff. In the two cases which follow, we see two courts take very differing views of plaintiffs' claims that authors have defamed them by altering their physical descriptions and circumstances. In *Springer v. Viking Press*, the changes (assuming the defendant had the plaintiff in mind when he wrote his novel) are sufficiently dramatic that the plaintiff cannot be identified, while in *Bindrim v. Mitchell*, it is the changes themselves which (apparently being inadequate to disguise the target) are the libelous material.

Springer v. Viking Press, 90 A.D.2d 315, 457 N.Y.S.2d 246 (1st Dept. 1982), [cf4]aff'd[cf3], 60 N.Y.2d 916, 470 N.Y.S.2d 579 (1983)

BLOOM, JUSTICE

This appeal presents us with the issue of whether a fictional depiction of a person contained in a single chapter of a novel is so closely related to plaintiff in the minds of people to whom she is known as to give rise to a cause of action in defamation.

Plaintiff and defendant Tine, the author of the novel in question, attended Columbia University from 1974 to 1978. They met and a close personal relationship developed. In 1978 Tine completed the draft of "State of Grace" a novel dealing with Vatican finances and politics. Plaintiff and Tine discussed the plot during the volume's hatching stage and plaintiff, at Tine's request, reviewed the book for editorial purposes. Indeed, Tine informed plaintiff that he had loosely patterned the relationship between the hero, the papal private secretary, and the heroine, an investigative reporter and the daughter of one of Italy's most influential and powerful industrialists, on the relationship between them.

Plaintiff and Tine terminated their friendship in 1978, apparently with some rancor. In 1980 "State of Grace" was published by defendant, The Viking Press. Chapter 10 of the book, which covers some ten and one-half pages, depicts the origin of and one evening in the relationship between the Italian industrialist, described as "the cossack of Italian business, ruthless and demanding," and his mistress, Lisa Blake. Although brief, the chapter is most explicit about their sexual exploits. Based on some physical similarities between Lisa Blake and plaintiff and their common first name, plaintiff contends that the portrayal of Blake is actually a portrayal of her; and that a number of persons who knew both Tine and her, and of the relationship between them, knew and understood Blake and plaintiff to be one and the same person. Accordingly, she asserts that the depiction of Blake as a "whore" who engages in various types of abnormal sexual activity is defamatory of her. By consequence, she has brought this action to recover for the alleged libel.

The complaint contains [a number of] causes of action. The first two causes are in libel; the fifth cause asserts an invasion of privacy under the Civil Rights Law. Defendants moved to dismiss the complaint. Plaintiff cross-moved for summary judgment on the issue of liability. Special Term granted the defendant's motion to the extent of dismissing the third, fourth, [and] fifth . . . causes of action. It denied plaintiff's cross motion for summary judgment. Both sides appeal from that determination.

We deal first with the causes dismissed by Special Term. . . .

The fifth cause purports to allege a violation of §§ 50 and 51 of the Civil Rights Law. Section 50 makes it a misdemeanor to use, for purposes of trade or advertising, “the name, portrait or picture of any living person without having first obtained the written consent of such person”. Section 51 accords to the person whose name, portrait or picture is so used the right to sue for an injunction to restrain such use and to recover damages, including exemplary damages. Whatever may be the rule elsewhere, in this state there is no right of action for invasion of privacy independently of statute. . . . Since “State of Grace” does not use plaintiff’s name, portrait or picture, no cause of action under the Civil Rights Law exists. . . .

We come then to the defamation causes which were sustained by Special Term. We begin by noting that “[i]t is for the court to decide whether a publication is capable of the meaning ascribed to it” (*Julian v. American Business Consultants, Inc.*, 2 N.Y.2d 1, 14, 155 N.Y.S.2d 1, 137 N.E.2d 1 . . .). Where, as here, the work claimed to be defamatory is fictional, the court’s task necessarily entails a search for similarities and dissimilarities so as to determine whether a person who knew plaintiff and who has read the book could reasonably conclude that plaintiff was Lisa Blake. Plaintiff asserts that her physical attributes and those of Blake are similar. Like plaintiff, Blake had graduated from college. Additionally, the book indicates that Blake had once lived on 114th Street, a street on which plaintiff lived and still lives. However, plaintiff is a tutor on the college level while Blake, described as a “whore,” held the “title deed for a coop apartment in the Olympic Tower on Fifth Avenue,” which was well-furnished but not overbearing, received a “salary” of seventy-five thousand dollars and drove a BMW. Blake lived luxuriously. There is no indication of plaintiff’s manner of living except as it can be inferred from the nature of her work.

While the similarities adverted to are in large part superficial, the dissimilarities both in manner of living and in outlook are so profound that it is virtually impossible to see how one who has read the book and who knew Lisa Springer could attribute to Springer the lifestyle of Blake.

In *Allen v. Gordon*, 86 A.D.2d 514, 446 N.Y.S.2d 48, defendant was the author of a book entitled “I’m Dancing As Fast As I Can” which set forth the serious physical and emotional difficulties encountered by her as the result of the excessive prescription by her psychiatrist of the drug Valium. In her book she gave the psychiatrist the fictitious name of Dr. Allen. In fact, there was only one psychiatrist named Allen in the Manhattan phone book. That Allen sued for defamation. We held that the dissimilarities between the Dr. Allen named in the book and the plaintiff were such as to negate any suggestion that he was the person indicated. . . .

In *Lyons v. New American Library, Inc.*, 78 A.D.2d 723, 432 N.Y.S.2d 536, the defendants were the publishers and authors of a fictional version of the detailed and sometimes frustrating search by the New York City Police Department to discover and ultimately apprehend the random killer who was commonly referred to as “Son of Sam.” During a conversation among several New York City police officers engaged in the investigation, defamatory reference was made to the incompetence of a sheriff headquartered in Malone, New York. Plaintiff was the sheriff of Franklin County and maintained his office in Malone, New York. He brought suit to recover for libel. In dismissing the action the court noted:

The work clearly states that it is fiction and that, combined with plaintiff's admission that he did not participate in the Son of Sam investigation, requires the conclusion that the passage is not actionable (p. 724, 432 N.Y.S.2d 536).

The teaching of these cases is that for a defamatory statement or statements made about a character in a fictional work to be actionable the description of the fictional character must be so closely akin to the real person claiming to be defamed that a reader of the book, knowing the real person, would have no difficulty linking the two. Superficial similarities are insufficient, as is a common first name. In the circumstances here presented we cannot say that Chapter 10 of *State of Grace* is susceptible of the interpretation ascribed to it by plaintiff. Accordingly, we hold that the first two causes of action must be dismissed. . . .

KUPFERMAN, JUSTICE PRESIDING (dissenting in part)

I dissent and would affirm. The majority opinion fairly states the facts, although it omits and glosses over items of similarity which would indicate that the character portrayed in the defendants' novel refers to the plaintiff.

It cannot be determined, as a matter of law . . . that the writing is not "of and concerning" the plaintiff.

The Court accepts the fact that the defendant-author contemplated including the plaintiff in his book, although the portrayal would have been of a more appealing character. There can be no question but that the portrayal in the book is defamatory, and the only issue is identification. The dissimilarities which the Court stresses, "both in manner of living and in outlook," are the very basis for the allegations of defamation. To accept them as leading to the conclusion that there is no connection is the essence of a bootstrap operation.

The Record contains a letter from a former lecturer and teacher at Columbia University who had known both the plaintiff and the author-defendant, which has the following paragraph:

I have read Robbie's book and am absolutely amazed that he has put *Lisa into it—under her own name!*—as a psychology student who has become a highclass prostitute. What a childish revenge! She is described making torridly clinical "love" to an Italian tycoon-gangster who connives to have the pope killed . . . I wonder if L. [Lisa] has read it? (emphasis added)

NOTE

Authors have always drawn from their life experiences in their writings, even where their works are not expressly autobiographical. Michael Polydoros went to school with David Mickey Evans, the eventual writer/director of the film *The Sandlot*. A character in the film—Michael "Squints" Palledouros—bore a strong physical resemblance to Polydoros at the time he and Evans went to school together. Polydoros sued for defamation, invasion of privacy, commercial appropriation of identity, and negligence. The Court of Appeal (whose opinion was re-published by order of the Supreme Court), held that "mere similarity or even identity of names is insufficient to establish a work of fiction is of and concerning a real person . . . [R]udimentary similarities in locale and boyhood activities do not make 'The Sandlot' a film about [Polydoros'] life This is a universal theme and a concededly fictional film. The faint outlines [Polydoros] has seized upon do not transform fiction into fact." *Polydoros v. Twentieth Century Fox Film Corp.*, 79 Cal. Rptr.2d 207, 1997 Cal.App.LEXIS 724 (2d Dist. 1997); *Polydoros v. Twentieth Century Fox Film Corp.*

79 Cal.Rptr.2d 206, 1998 Cal.LEXIS 6651 (Cal. 1998) (dismissing review and ordering publication).

Bindrim v. Mitchell, 155 Cal.Rptr. 29 (Ct. App.), cert. denied, 444 U.S. 984 (1979), reh. denied, 444 U.S. 1040 (1980)

KINGSLEY, J.

This is an appeal taken by Doubleday and Gwen Davis Mitchell from a judgment for damages in favor of plaintiff-respondent Paul Bindrim, Ph.D. The jury returned verdicts on the libel counts against Doubleday and Mitchell . . .

Plaintiff is a licensed clinical psychologist [who] used the so-called “Nude Marathon” in group therapy as a means of helping people to shed their psychological inhibitions with the removal of their clothes.

Defendant Mitchell had written a successful best seller in 1969 and had set out to write a novel about women of the leisure class . . . [Although she had gained admittance by assuring Dr. Bindrim that she would not write about the experience in a novel, she promptly secured a \$150,000 advance commitment from Doubleday to do just that.] Mitchell met Eleanor Hoover for lunch and said she was worried because she had signed a contract and painted a devastating portrait of Bindrim . . . The novel was published under the name *Touching* and it depicted a nude encounter session in Southern California let by “Dr. Simon Herford.” . . .

The parallel between the actual nude marathon sessions and the sessions in the book *Touching* was shown to the jury by means of the tape recordings Bindrim had taken of the actual sessions. Plaintiff complains in particular about a portrayed session in which he tried to encourage a minister and his wife to attend the nude marathon. Plaintiff alleges he was libeled by the passage below:

[Excerpts from *Touching*, pages 126–127]

The minister was telling us how the experience had gotten him further back to God.

And all the time he was getting closer to God, he was being moved further away from his wife, who didn’t understand, she didn’t understand at all. She didn’t realize what was coming out of the sensitivity training sessions he was conducting in the church.

He felt, he, more than felt, he knew, that if she didn’t begin coming to the nude marathons and try to grasp what it was all about, the marriage would be over.

“You better bring her to the next marathon,” Simon said.

“I’ve been trying,” said the minister. “I only pray she comes.”

“You better do better than pray,” said Simon. “You better grab her . . . and drag her here.”

“I can only try.”

“You can do more than try. You can grab her by the c**t.”

“A man with that kind of power, whether it comes from God or from his own manly strength, strength he doesn’t know he has, can drag his wife here by the f*****g c**t.”

“I know,” Alex said softly, “I know.”

[Transcript of actual session]

“I’ve come a long way.”

“I’d like to know about your wife. She hasn’t been to a marathon?”

“No.”

“Isn’t interested? Has no need?”

“I don’t—she did finally say that she would like to go to a standard sensitivity training session somewhere. She would be—I can’t imagine her in a nude marathon. She can’t imagine it.”

“Why?”

“Neither could I when I first came.”

“Yeh. She might. I don’t know.”

“It certainly would be a good idea for two reasons: one, the minor one is that you are involved here, and if she were in the same thing, and you could come to some of the couple ones, it would be helpful to you. But more than that, almost a definite recipe for breaking up a marriage is for one person to go into growth groups and sense change and grow . . .”

“I know that.”

“Boy they sure don’t want that, and once they’re clear they don’t need that mate any more, and they are not very patient.”

“But it is true, the more I get open the more the walls are built between us. And it’s becoming a fairly intelligent place, a fairly open place, doing moderate sensitivity eyeballing stuff with the kids. I use some of these techniques teaching out [sic] class work.”

“Becoming more involved?”

“Yeh, involved at the same time that I am more separated from. It’s a paradox again, isn’t it?”

“Mmm.”

Plaintiff asserts that he was libeled by the suggestion that he used obscene language which he did not in fact use. Plaintiff also alleges various other libels due to Mitchell’s inaccurate portrayal of what actually happened at the marathon. Plaintiff alleges that he was injured in his profession and expert testimony was introduced showing that Mitchell’s portrayal of plaintiff was injurious and that plaintiff was identified by certain colleagues as the character in the book, Simon Herford.

I

[The Court first proceeded to find that although the plaintiff was a public figure, there was clear and convincing evidence of actual malice. Later, the court found that although the book was a novel, it portrayed events in a factual manner.] Mitchell’s reckless disregard for the truth was apparent from her knowledge of the truth of what transpired at the encounter, and the literary portrayals of that encounter. . . . Since “actual malice” concentrates solely on defendants’ attitude toward the truth or falsity of the material published . . . and not on malicious motives, certainly defendant Mitchell was in a position to know the truth or falsity of her own material. . . .

II

Appellants claim that, even if there are untrue statements, there is no showing that plaintiff was identified as the character, Simon Herford [or] identifiable as Simon Herford, relying on the fact that the character in *Touching* was described in the book as a “fat Santa Claus type with long white hair, white sideburns, a cherubic rosy face and rosy forearms” and that Bindrim was clean shaven and had short hair. Defendants rely on *Wheeler v. Dell Publishing Co.* (7th Cir. 1962) 300 F.2d 372, which involved an alleged libel caused by a fictional account of

an actual murder trial. The *Wheeler* court said (at p. 376): “In our opinion, any reasonable person who read the book and was in a position to identify Hazel Wheeler with Janice Quill would more likely conclude that the author created the latter in an ugly way so that none would identify her with Hazel Wheeler. It is important to note that while the trial and locale might suggest Hazel Wheeler to those who knew the Chenoweth family, suggestion is not identification. In *Levey [v. Warner Bros. Pictures]* (S.D.N.Y. 1944) 57 F. Supp. 40] the court said those who had seen her act may have been reminded of her by songs and scenes, but would not reasonably identify her.” However, in *Wheeler* the court found that no one who knew the real widow could possibly identify her with the character in the novel. In the case at bar, the only differences between plaintiff and the Herford character in *Touching* were physical appearance and that Herford was a psychiatrist rather than a psychologist. Otherwise, the character Simon Herford was very similar to the plaintiff. We cannot say, as did the court in *Wheeler*, that no one who knew plaintiff Bindrim could reasonably identify him with the fictional character. Plaintiff was identified by several witnesses and plaintiff’s own tape recordings of the marathon sessions show that the novel was based substantially on plaintiff’s conduct in the nude marathon.

Defendant also relies on *Middlebrooks v. Curtis Publishing Co.* (4th Cir. 1969) 413 F.2d 141, where the marked dissimilarities between the fictional character and the plaintiff supported the court’s finding against the reasonableness of identification. In *Middlebrooks*, there was a difference in age, an absence from the locale at the time of the episode, and a difference in employment of the fictional character and plaintiff; nor did the story parallel the plaintiff’s life in any significant manner. In the case at bar, apart from some of those episodes allegedly constituting the libelous matter itself, and apart from the physical difference and the fact that plaintiff had a Ph.D. and not an M.D., the similarities between Herford and Bindrim are clear, and the transcripts of the actual encounter weekend show a close parallel between the narrative of [defendant’s] novel and the actual real life events . . .

JEFFERSON, J. (Concurring)

. . . The dissent erroneously describes the majority holding as creating a cause of action for libel out of a work of fiction that attacks the techniques of “nude encounter therapy.” . . . Had the defendant author of the work limited her novel to a truthful or fictional description of the techniques employed . . . I would agree with the dissent. . . . But here we have a description of a therapist as using insulting and vulgar language of the rankest sort in addressing his patients. Apparently the dissent does not consider that such language is capable of being defamatory of plaintiff in his professional role . . . [Such] vulgarity . . . would necessarily be considered by numerous persons as completely unprofessional and defamatory if used by a professional therapist such as the plaintiff . . . It is my view that any reader of the novel, whether familiar with a professional therapist’s practice or not, might well conclude that a therapist described in the novel was a lewd and dissolute character in the practice of his profession. . . .

FILES, J. (Dissenting)

[Plaintiff’s] grievance . . . is provoked by [defendant’s] institutional criticism. Plaintiff’s “concession” that he is a public figure appears to be a tactic to enhance his argument that any unflattering portrayal of this kind of therapy defames him.

The decision of the majority . . . poses a grave threat to any future work of fiction which explores the effect of techniques claimed to have curative value. . . .

The only arguably defamatory matter I can find . . . is in the passages which portray the fictional therapist using coarse, vulgar and insulting language in addressing his patients . . .

Defendants' novel describes a fictitious therapist who is conspicuously different from plaintiff in name, physical appearance, age, personality and profession.

Indeed, the fictitious Dr. Herford has none of the characteristics of plaintiff except that Dr. Herford practices nude encounter therapy. Only three witnesses, other than plaintiff himself, testified that they "recognized" plaintiff as the fictitious Dr. Herford. All three of those witnesses had participated in or observed one of plaintiff's nude encounter marathons. The only characteristic mentioned by any of the three witnesses as identifying plaintiff was the therapy practiced . . . Plaintiff has no monopoly upon the encounter therapy which he calls "nude encounter." Witnesses testified without contradiction that other professionals use something of this kind. . . .

Plaintiff's brief discusses the therapeutic practices of the fictitious Dr. Herford in two categories. Those practices which are similar to plaintiff's technique are classified as identifying. Those which are unlike plaintiff's are called libelous because they are false. Plaintiff has thus resurrected the spurious logic which Professor Kalven found in the position of the plaintiff in *New York Times v. Sullivan*, 376 U.S. 254. Kalven wrote: "There is revealed here a new technique by which defamation might be endlessly manufactured. First it is argued that, contrary to all appearances, a statement referred to the plaintiff; then, that it falsely ascribed to the plaintiff something that he did not do, which should be rather easy to prove about a statement that did not refer to plaintiff in the first place . . ." Kalven, "The New York Times Case: A Note on the 'Central Meaning of the First Amendment,'" 1964 *Sup. Ct. Rev.* 191, 199.

NOTES

1. Of course, one of the elements of defamation is publication. How many recipients must the material reach? The Bindrim court held that the fact that several professional colleagues recognized Bindrim from the novel was sufficient to constitute "publication," a result with which Judge Files' dissent disagreed.

2. What if the allegedly defamatory statement applies to a group? There can be no recovery if the group is sufficiently large that no individual can claim that the statement is of and concerning him/her. See, e.g., *O'Brien v. Williamson Daily News*, 735 F. Supp. 218 (E.D. Ky. 1990) (reference to possible sexual misconduct by high school teachers; group of 29 too large to permit claim of identification of any particular individual) and *Noral v. Hearst Publications*, 40 Cal. App. 2d 348, 104 P.2d 860 (1940) (reference to "officials" of labor union too broad.)

3. On the other hand, so-called "veggie libel" laws apply to entire industries. Although *Texas Beef Group v. Winfrey*, 201 F.3d 680 (5th Cir. 2000) held that Oprah Winfrey was not liable in defamation because of alleged losses of beef sales due to a discussion of "mad cow" disease on her syndicated talk show, the court apparently accepted the constitutionality of the legislative concept.

3.2.5 Damage to Reputation

Finally, it must be demonstrated that plaintiff's reputation has been damaged by the unprivileged false factual published statement. However, there are apparently

some people who are not capable of being defamed. See, for example, *Cerasani v. Sony Corporation*, 991 F. Supp. 343 (S.D.N.Y. 1998). The 1996 film, *Donnie Brasco*, based on the 1987 autobiography of former FBI agent Joseph Pistone, depicts Pistone's six-year undercover odyssey as a member of the Bonnano crime family. The film depicts Cerasani (by name) as viciously beating a driver during a truck hijacking, brutally beating the maitre d' at a Japanese restaurant, and participating in the gruesome murder of at least one Bonnano family captain. Cerasani based his libel suit on the facts (1) that he was never charged with participating in or committing the murder, and (2) that while he was charged in the 1982 criminal action in which Pistone testified, he was acquitted of all charges. Nonetheless, his case was dismissed. Pistone had testified against him in 1982, and there had been extensive press coverage at the time. Pistone wrote about him at great length in his book. In between, in 1985, Cerasani had pled guilty to racketeering, conspiracy to commit bank robbery, and possession of drugs with intent to distribute. At the time he sued Sony, he was newly indicted for racketeering, extortion, and securities fraud. Under the circumstances, Judge Chin held that Cerasani's reputation was so badly tarnished that he could not be defamed, even if everything he cited in his complaint was defamatory, citing *Guccione v. Hustler Magazine, Inc.*, 800 F.2d 298, 303 (2d Cir. 1986), *cert. denied*, 479 U.S. 1091; see also, *Cardillo v. Doubleday & Co., Inc.*, 518 F.2d 638, 639 (2d Cir. 1975). Since he had such a low reputation, he was "libel-proof," under *Herbert v. Lando*, 781 F.2d 298, 311 & n. 9 (2d Cir.), *cert. denied*, 476 U.S. 1182 (1986). In what may have been the understatement of the year, Judge Chin observed that Cerasani "is not a model citizen."

Nor can the plaintiff recover where he claims that his reputation has been damaged by an accusation that he performed an act which, though unpopular in plaintiff's community, is legal. Thus, in *Agnant v. Shakur*, 30 F.Supp. 2d 420, 1998 U.S. Dist. LEXIS 19714 (S.D.N.Y. 1998), it was held not to be defamatory for Tupac Shakur to accuse plaintiff of being an undercover police informant. (The court also held that Agnant could not recover for other statements by Shakur because they did not constitute libel per se and Agnant had not pleaded special damages. See Sec. 3.2.1, above.)

3.2.6 Defensive Aspects

3.2.6.1 Prior Restraint

Due to judicial concern for the First Amendment, prior restraint against publication is almost never available. There is an almost insuperable presumption against it. *Near v. Minnesota*, 283 U.S. 697 (1931). This principle has been upheld even in a case in which publication of a book might endanger government agents. *State of Israel v. St. Martin's Press*, 166 App. Div. 2d 251 (1st Dept. 1990). In *Ruffin-Steinback v. DePasse*, 17 F. Supp. 2d 699, 1998 U.S. Dist. LEXIS 14927 (E.D. Mich. 1998), the daughter of a former member of a famous recording group was unable to prevent the broadcast of a miniseries about the group's career.

3.2.6.2 Public Officials/Public Figures

Of course, the basic media protection in this area is found in the rule of *New York Times v. Sullivan*, 376 U.S. 254 (1964), which held that publication of defamatory material must be made with "actual malice" in order for a public official

to recover, “actual malice” being defined as knowledge of falsity or reckless disregard for truth or falsity. It is not a matter of attitude (which has led some scholars to use the term “constitutional malice” rather than “actual malice.”) This rule has been extended to one who, while not a public official, is involved in an issue of public interest. This status can be general or limited. *Gertz v. Welch*, 418 U.S. 323 (1974) (although involved in a lawsuit, a lawyer had not injected himself into a public interest issue and—like the plaintiff in *Clark v. ABC* (Sec. 3.2.3)—had no access to the media to rebut the defamatory article.) “Newsworthiness” is a key element. Is it a matter of public interest? In this area, because of the higher standard of proof required, courts give considerable latitude to editorial judgment; in the absence of clear abuse, the courts will defer to the editor’s determination of whether a matter is reasonably related to the public interest. *Huggins v. Moore*, 94 N.Y. 2d 296 (1999). However, it should also be noted that where a plaintiff is not involved in a matter of public concern, punitive damages may be available even in the absence of malice. *Dun & Broadstreet, Inc. v. Greenmoss Builders, Inc.*, 472 U.S. 749 (1985). Thus, where a book falsely accused a Pakistani photojournalist of assassinating Sen. Robert Kennedy, the publisher of an article about the book (which included a photograph of the plaintiff on the podium with Sen. Kennedy just before the shooting) was liable for punitive damages; the plaintiff’s presence on the podium did not make him either an involuntary or limited-purpose public figure. *Khawar v. Globe International, Inc.* 79 Cal. Rptr. 178, 1998 Cal. LEXIS 6880 (Cal. 1998).

The test in the area of “reckless disregard” is whether the defendant had subjective doubts (i.e., it is not a reasonable person test.) *St. Amant v. Thomas*, 390 U.S. 727 (1968) (candidate relied on affidavit from union member; unaware of need to verify facts independently.)

Often, celebrities and others involved in public issues try to head off unfavorable media treatment by having their lawyers send letters threatening legal action. However, by itself, a “lawyer letter” is not sufficient to trigger subjective doubts. *Davis v. Costa-Gavras*, 619 F. Supp. 1372 (S.D.N.Y. 1984). However, a “lawyer letter” supported by evidentiary material may impose a duty to investigate further. *Rinaldi v. Viking Penguin, Inc.*, 52 N.Y.2d 422 (1981)(attorney’s letter was accompanied by factual materials demonstrating that judge could not have taken part in allegedly corrupt events.)

NOTES

1. The fact that an individual has a relationship with or to a public figure does not *per se* invest that individual with (or impose on that individual) the status of a public figure. Thus, the ex-husband of TV personality Joan Lunden (who was himself a television producer) was not transmuted into a public figure by having been divorced from Ms. Lunden, and was required to meet the lower “negligence” burden of proof rather than the “actual malice” standard discussed above. *Krauss v. Globe International, Inc.*, 251 A.D.2d 191, 1998 N.Y. App.Div.LEXIS 7372 (1st Dept. 1998).

2. “SLAPPs” are “strategic lawsuits against public participation,” i.e., meritless litigation brought to chill criticism. States have adopted anti-SLAPP statutes (e.g., Mass. G.L.c. 231 §59H; Cal. Code of Civil Procedure §425.16). The California statute was applied to uphold the dismissal of a libel action by a political consultant against the publisher of the magazine *Mother Jones*, in *Sipple v. Foundation for National Progress*, 71 Cal.App. 4th 226, 83 Cal.Rptr.2d 677 (2d Dist. 1999)

3.2.6.3 *Burden of Proof*

The burden of proof of falsity in a media defamation case involving a matter of public concern rests upon the plaintiff, whether plaintiff is a public figure or a private figure. *Philadelphia Newspapers v. Hepp*, 475 U.S. 767 (1986), and this burden can be met only by clear and convincing evidence. *Tavoulareas v. Piro*, 260 App. D.C. 39, 817 F.2d 762, *cert. denied*, 484 U.S. 870 (1987). On review, moreover, the appellate court will perform an independent review (instead of applying the “clearly erroneous” standard). *Bose v. Consumers Union*, 466 U.S. 485 (1984), *reh. denied*, 467 U.S. 1267.

3.2.6.4 *Judicial Resistance Toward Alternative Remedies*

In a novel and imaginative attempt to avoid the high bar confronted by plaintiffs in defamation cases, a chain of supermarkets sued a broadcast network for fraud, breach of duty of loyalty, trespass, and unfair trade practices in a case in which network employees falsified their personal histories in order to gain employment with the chain and conduct undercover investigations into claims that the chain knowingly sold outdated meat. A \$5 million punitive damages verdict (on top of a compensatory damages verdict of \$1,402, including \$2 in damages for breach of the duty of loyalty) in favor of the chain (which had already been reduced by the trial judge to \$315,000) was to all intents and purposes reversed by the Fourth Circuit in *Food Lion, Inc. v. Capital Cities/ABC, Inc.*, 1999 U.S. App. Lexis 26373 (4th Cir. 1999). Although the Fourth Circuit affirmed the \$2 award, the Court noted that Food Lion had acknowledged that it could not prove that ABC had acted with actual malice, and refused to allow Food Lion to run “an end run around First Amendment strictures,” citing *Hustler Magazine v. Falwell*, 485 U.S. 46 (1988).

3.3 PERSONAL RIGHTS: PRIVACY

3.3.1 *Introduction: Common Law*

The right of privacy as a legally enforceable right is largely a twentieth-century development. As with other modern legal theories, privacy’s roots are embedded in a variety of common law precedents, but its enunciation as an integrated legal theory is of recent origin. Thomas Cooley in his treatise on torts remarked on a right “to be left alone.”

Then came a landmark article by Samuel Warren and Louis Brandeis, published in volume four of the *Harvard Law Review* in 1890. Titled “The Right to Privacy,” the article begins its analysis with the following:

That the individual shall have full protection in person and in property is a principle as old as the common law; but it has been found necessary from time to time to define anew the exact nature and extent of such protection. Political, social, and economic changes entail the recognition of new rights, and the common law, in its eternal youth, grows to meet the demands of society. Thus, in very early times, the law gave a remedy only for physical interference with life and property, for trespasses *vi et armis*. Then the “right to life” served only to protect the subject from battery in its various forms; liberty meant freedom from actual restraint; and the right to property secured to the individual his lands and his cattle. Later, there came a recognition of man’s spiritual nature, of his feelings and his intellect. Grad-

ually the scope of these legal rights broadened; and now the right to life has come to mean the right to enjoy life—the right to be let alone; the right to liberty secures the exercise of extensive civil privileges; and the term “property” has grown to comprise every form of possession—intangible, as well as tangible.

Following this came various writings of William Prosser. In one of his later efforts, Dean Prosser enunciated the four categories included within a personal right to privacy. These are:

1. Protection against intrusion into one’s private affairs;
2. Avoidance of disclosure of one’s embarrassing private facts;
3. Protection against publicity placing one in a false light in the public eye; and
4. Remedies for appropriation, usually for commercial advantage, of one’s name or likeness.

Most jurisdictions today have interwoven one or more of these categories into their case law. A few jurisdictions have granted statutory recognition. But in all, an uncertain process has left incomplete the protection many states afford citizens under a right of privacy.

Under Prosser’s four areas of classic privacy violations, the first three protect an individual from mental harm resulting from the harsh and unwelcome glare of persona invasion. The concerns of these three differ from the theoretical underpinnings of Prosser’s fourth intrusion, since the focus of the fourth is not so much on mental harm but on the proprietary interests of protecting against misappropriation of one’s name or likeness for commercial gain.

Since this fourth intrusion is similar to the protections afforded by the right of publicity, courts have had difficulty distinguishing the two rights when a misappropriation of name or likeness occurs. Some courts have refused to recognize any differences at all. Courts which have recognized a common law right of publicity have chosen to distinguish the two rights on the grounds that the state’s interest in enforcing them is different. Prosser stated:

The interest protected “in permitting recovery (for a privacy invasion)” is clearly that of reputation, with the same overtones of mental distress as defamation! . . . By contrast, the State’s interest in permitting the proprietary interest of the individuals is closely analogous to the goals of patent and copyright law, focusing on the right of the individual to reap the reward of his endeavors and having little to do with protecting feeling. (Prosser, “Privacy,” 48 *California Law Review*, p. 406)

Thus, the decision by a court to apply privacy versus publicity may depend on quite different considerations.

Since the right of privacy is a personal right, generally only persons who are injured may assert a claim. Consequently, the right is not assignable and usually does not survive the injured party’s death. These limitations obviously make a publicity claim more attractive if assignment or descendibility is at issue. In addition, as a practical matter, the right of publicity is predominantly a right for celebrities whose names have commercial value; in contrast, the right of privacy is more applicable to the average individual. These characterizations are not inflexible and sedimentary, however, and celebrities for good reason at times invoke rights of privacy when unwarranted intrusions occur.

A right of privacy claim has three elements: the use of one's name or image in an (1) identifiable manner, (2) without consent, and (3) in situations in which the invasion benefits the wrongdoer. It is irrelevant how many people recognize the individual whose privacy is invaded, but recognition may be a factor in assessing damages.

A fictionalized work may give rise to a claim if the use of a name or physical characteristics makes the complainant identifiable. Whether fictionalized or not, an unauthorized depiction of an individual need not be a complete facsimile to warrant a privacy invasion. Some jurisdictions do not even require that the person be identified, but allow pictorial surroundings to constitute identification. In most jurisdictions, the complainant's actual name need not be used if a nickname or other name permits identification.

As with other personal rights, privacy rights may conflict with First Amendment rights. This raises the important question of when is there a public interest in the depictions presented? This question is discussed in Section 3.3.3.

3.3.1.1 *The First Cases: Roberson and Pavesich*

The most famous of the early privacy cases was *Roberson v. Rochester Folding Box Co.*, 171 N.Y. 538, 64 N.E. 442 (1902), in which the Court of Appeals held (in a 4–3 decision) that the unauthorized use of an individual's picture on flyers promoting the sale of flour boxes did not violate that individual's right of privacy. "The so-called right of an individual," the majority stated, "founded on the claim that he has the right to pass through this world without having his picture published, his business enterprises discussed, his successful experiments written up for the benefit of others, or his eccentricities commented on in circulars, periodicals, or newspapers, whether the comment be favorable or otherwise, does not exist in law, and is not enforceable in equity." (The absence of a common law right of privacy in New York was reiterated in *Costanza v. Seinfeld*, 181 Misc.2d 562, 693 N.Y.S.2d 897 [Sup. Ct. N.Y.Co. 1999], in which one Michael Costanza sued the creators of "Seinfeld" claiming that the character of George Costanza was based on him. Plaintiff was time-barred under §§ 50 and 51 of the New York Civil Rights Law. However, he could not fall back on the longer limitations period applicable to common law torts.) It fell to the Georgia Supreme Court to take the first step toward protecting the right of privacy, as well as recognition (in dicta) of the right of publicity. As we will see, the positions expressed by the Pavesich court have taken root in subsequent statutory and case law.

Pavesich v. New England Life Insurance Co., 122 Ga. 191 (1904)

COBB, J.

[*The Atlanta Constitution* published an easily recognizable likeness of the plaintiff in an advertisement for the New England Life Insurance Company, without the participation or consent of the plaintiff (who was not insured by the company). His picture was next to that of a poorly dressed and sickly looking person. Above the picture of the plaintiff were the quotes: "Do it now. The man who did." Above the other person appeared: "Do it while you can. The man who didn't." This time the court had no trouble recognizing (or, in its view, rediscovering) the right of privacy:] "[T]he right of privacy has its foundation in the instincts of

nature . . . [A]s to each individual member of society there are matters private and there are matters public so far as the individual is concerned." . . .

The right of one to exhibit himself to the public at all proper times, in all proper places, and in a proper manner is embraced within the right of personal liberty. The right to withdraw from the public gaze at such times as a person may see fit, when his presence in public is not demanded by any rule of law is also embraced within the right of personal liberty. Publicity in one instance and privacy in the other is each guaranteed. If personal liberty embraces the right of publicity, it no less embraces the correlative right of privacy; and this is no new idea in Georgia law. . . .

The right of privacy, however, like every other right that rests in the individual, may be waived by him, or by any one authorized by him, or by any one whom the law empowers to act in his behalf, provided the effect of his waiver will not be such as to bring before the public those matters of a purely private nature which express law or public policy demands shall be kept private. This waiver may be either express or implied, but the existence of the waiver carries with it the right to an invasion of privacy only to such an extent as may be legitimately necessary and proper in dealing with the matter which has brought about the waiver. It may be waived for one purpose and still asserted for another . . . Liberty includes the right to live as one will, so long as that will does not interfere with the rights of another or of the public. One may desire to live a life of seclusion; another may desire to live a life of publicity; still another may wish to live a life of privacy as to certain matters and of publicity as to others. . . .

The stumbling block [is the tension between privacy and] the liberty of speech and of the press . . . Each is a natural right, each exists, and each must be recognized and enforced with due respect for the other. . . . The right to speak and write and print has been, at different times in the world's history, seriously invaded by those who, for their own selfish purposes, desired to take away from others such privileges, and consequently these rights have been the subject of provisions in the constitutions of the United States and of this State. . . . The right of privacy [cannot] interfere with the free expression of one's sentiments and the publication of every matter in which the public may be legitimately interested. In many cases the law requires the individual to surrender some of his natural and private rights for the benefit of the public; and this is true in reference to some phases of the right of privacy as well as other legal rights. Those to whom the right to speak and write and print is guaranteed must not abuse this right; nor must one in whom the right of privacy exists abuse this right. . . .

With all due respect to Chief Judge Parker [the author of the Roberson decision] and his associates who concurred with him, we think the conclusion reached by them was the result of an unconscious yielding to the feeling of conservatism which naturally arises in the mind of a judge who faces a proposition which is novel. [While beneficial,] this conservatism should not go to the extent of refusing to recognize a right which the instincts of nature prove to exist, and which nothing in judicial decision, legal history, or writings upon the law can be called to demonstrate its non-existence as a legal right. . . .

[W]e have little difficulty in arriving at the conclusion that the present case is one in which it has been established that the right of privacy has been invaded [without constitutional exemption . . .] The defendant insurance company and its agent had no more authority to display [plaintiff's picture] in public for the purpose of advertising the business in which they were engaged [without plaintiff's

consent] than they would have had to compel the plaintiff to place himself upon exhibition for this purpose . . . The plaintiff was in no sense a public character, even if a different rule in regard to the publication of one's picture should be applied to such characters . . .

There is in the publication of one's picture for advertising purposes not the slightest semblance of an expression of an idea, a thought, or an opinion, within the meaning of the constitutional provision which guarantees to a person the right to publish his sentiments on any subject. Such conduct is not embraced within the liberty to print, but is a serious invasion of one's right of privacy, and may in many cases, according to the circumstances of the publication and the uses to which it is put, cause damages to flow which are irreparable in their nature. The knowledge that one's features and form are being used for such a purpose and displayed in such places as such advertisements are often liable to be found brings not only the person of an extremely sensitive nature, but even the individual of ordinary sensibility, to a realization that his liberty has been taken away from him, and, as long as the advertiser uses him for these purposes, he can not be otherwise than conscious of the fact that he is, for the time being, under the control of another, that he is no longer free, and that he is in reality a slave without hope of freedom, held to service by a merciless master; and if a man of true instincts, or even of ordinary sensibilities, no one can be more conscious of his complete enthrallment than he is.

So thoroughly satisfied are we that the law recognizes within proper limits, as a legal right, the right of privacy, and that the publication of one's picture without his consent by another as an advertisement, for the mere purpose of increasing the profits and gains of the advertiser, is an invasion of this right, that we venture to predict that the day will come when the American bar will marvel that a contrary view was ever entertained by judges of eminence and ability. . . .

NOTES

1. While the courts very strongly defend the right of the media to record and discuss public events, a number of recent cases have demonstrated an increasing willingness on the part of the courts to draw a tighter line around the permissible area of activity. "Reality-based" programming has been a staple of television in recent years. Most often, reporters go undercover to investigate allegations of wrongdoing. For example, it was permissible for an undercover reporter to tape material for a report on faulty medical tests where the taping took place in a location in which the plaintiff had "no reasonable expectation of privacy in the location or contents of the conversation." *Medical Laboratory Management Consultants v. American Broadcasting Companies*, 30 F.Supp. 2d 1182, 1998 U.S. Dist. LEXIS 20084 (D. Ariz. 1998). However, in *Sanders v. American Broadcasting Companies, Inc.*, 20 Cal.4th 907, 85 Cal.Rptr.2d 909 (1999), an investigative reporter obtained employment as a telephone answerer at a psychic hotline, where she proceeded to utilize a hidden camera to videotape her conversations with other employees which occurred inside the firm's offices. Although the court "did not hold or imply that investigative journalists necessarily commit a tort by secretly recording events and conversations in offices, stores, or other workplaces," the test is "whether a reasonable expectation of privacy is violated," and, if so, whether the invasion is "highly offensive to a reasonable person, considering, among other factors, the motive of the alleged intruder" (citing, inter alia, *Shulman v. Group W. Productions*, 18 Cal.4th 200 (1998), a case in which the producer was held liable for taping a woman accident victim after she was taken from the site of the accident and placed in a medevac helicopter.) While not deciding the ultimate issue of liability, the court held that "the cause of action is not defeated as a matter of law

simply because the events or conversations upon which the defendant allegedly intruded were not completely private from all other eyes and ears.” For a discussion of the effect of such cases, see Neville L. Johnson, Brian A. Rishwain and David A. Elder, “Caught in the Act, *Los Angeles Lawyer*”, April 1998, p. 33.

2. As every TV viewer knows, “ride along” programming, in which a TV reporter accompanies police on their rounds, has been a staple in recent years. However, the U.S. Supreme Court recently held that a “ride-along” constituted a violation of the Fourth Amendment prohibition against unreasonable search and seizure. *Wilson v. Layne*, 526 U.S. 603 (1999). Although the public officials involved in the case were accorded qualified immunity against tort damages in an accompanying civil case, because the issue had not previously been addressed, *Hanlon v. Berger*, 526 U.S. 808 (1999), the same outcome is not likely to occur in similar situations in the future and media representatives considering “ride-alongs” would be well advised to reconsider.

3. A key element in the foregoing cases is the reasonable expectation of privacy. However, *People For The Ethical Treatment of Animals v. Bobby Berosini Ltd.*, 111 Nev. 615, 895 P.2d 1269 (1995) is an example of a situation in which there was no reasonable expectation of privacy: An animal rights activist (actually, a dancer in a Las Vegas show) surreptitiously videotaped the backstage activities of an animal trainer in the production, showing him shaking, punching and beating his animals. Claiming that such actions were “justified” for training, discipline and control purposes, the trainer sued an animal rights activist who played the video on a television program, as well as the group which the activist represented. A \$4.2 million verdict for the trainer for libel and invasion of privacy was reversed on appeal. The Court stated that “if [the trainer] did not think that the tape showed him doing anything wrong or disgraceful, he should not be heard to complain that the defendants defamed him merely by showing the tape.” (895 P.2d at 1272) Continuing, the court stated that “unless the tape had been materially altered to portray something different from what [the trainer] was actually doing, then defendants have not made a statement about [him],” (*Id.* at p. 1273) and “[w]hether the beatings portrayed in the tape are justified or constitute animal abuse is a matter involving a broad spectrum of opinion, lay and expert.” (*Id.* at 1274) Such a case involves “a value judgment based on true information disclosed to or known by the public . . . [and such a statement] is not a statement of fact . . . So long as the factual basis for the opinion is readily available, the persons receiving the opinion are in a position to judge for themselves the validity of the opinion.” (*Id.* at pp. 1275–77)

4. Similarly, no expectation of privacy was found where a television producer spoke with (and had his associates across the street videotape) a flight attendant who had worked on the flight which O. J. Simpson took to Chicago on the night of his wife’s death. The producer and the flight attendant spoke on her doorstep. The producer “immediately revealed that he worked for ABC and wanted [the attendant] to appear on television to discuss the flight; [she] did not tell [the producer] that her statements were in confidence [or] that the conversation was just between them; and [she] did not request that [the producer] not share the information with anyone else. [Nor did the producer] promise to keep what [the attendant] told him in confidence. We agree, from these undisputed facts, that no one in [the attendant’s] shoes could reasonably expect that a reporter would not divulge her account of [the flight.]”. *Deteresa v. American Broadcasting Companies, Inc.*, 121 F.3d 460 (9th Cir. 1997), cert denied, 523 U.S. 1137, reh denied, 524 U.S. 968 (1998).

5. Even famous entertainers (as well as crime victims) have reasonable expectations of privacy under some circumstances, the California Legislature has decided, enacting Sen. Bill 262 (Cal. Stats. 1998, ch. 1000), which added Civil Code § 1708.8. This statute (directed at “paparazzi”, and supported by the entertainment unions) imposes liability for a “physical invasion of privacy” in a manner that is “offensive to a reasonable person” for the purpose of “captur[ing] any type of visual image, sound recording, or other physical impression of the plaintiff engaging in a personal or familial activity” (which includes intimate details of the plaintiff’s life, interactions with the plaintiff’s family or significant

others, or other aspects of plaintiff's private affairs or concerns. Treble damages (as well as profits) are available to successful plaintiffs, in addition to injunctions and restraining orders.

3.3.1.2 *False Light*

A publication that presents an individual in a "false light" will frequently be defamatory as well, and many courts refuse to recognize the separate tort of false light invasion of privacy (see Sheldon W. Halpern, *The Law of Defamation, Privacy, Publicity and Moral Right*, 3d Edition [Columbus: JPM Books], Sec. 2.7). However, the decisions in *Spahn v. Julian Messner, Inc.* (which appears later in this section) and *Eastwood v. Superior Court* (Sec. 3.4.4.2) illustrate the sort of situation in which a nondefamatory publication can nonetheless present an individual in a false light. However, it must still be demonstrated that the presentation is "of and concerning" the plaintiff and that it would be "highly offensive to a reasonable person." In *Kitt v. Capital Concerts, Inc.* 74 A.2d 856 (D.C.App. 1999), the principal clarinetist with the National Symphony Orchestra lost a false light case where he declined to participate in a televised broadcast of the NSO and the orchestra utilized an actor in his place. The actor did not resemble, or play like, the plaintiff.

3.3.1.3 *Disclosure of Embarrassing Private Facts*

Diaz v. Oakland Tribune, Inc.

139 Cal.App. 3d 118, 188 Cal.Rptr. 762 (Ct. App. 1st Dist. 1983)

BARRY-DEAL, ASSOCIATE JUSTICE.

[Plaintiff sued the *Tribune* and one of its columnists, for invasion of privacy, claiming that they had published highly embarrassing private facts which caused her to suffer severe emotional distress. The defendants appealed from a jury award to Diaz of \$250,000 in compensatory damages and \$525,000 in punitive damages (\$25,000 against Jones and \$500,000 against the Tribune)]. We reverse the judgment because of instructional errors.

The facts are for the most part undisputed. Diaz is a transsexual. She was born in Puerto Rico in 1942 as Antonio Diaz, a male. She moved to California from New York in 1964. Suffice it to say that for most of her life Diaz suffered from a gender identification problem and the anxiety and depression that accompanied it [and ultimately underwent gender corrective surgery.] . . . By all outward appearances she looked and behaved as a woman and was accepted by the public as a woman. According to her therapist, Dr. Sable, her physical and psychological identities were now in harmony.

Diaz scrupulously kept the surgery a secret from all but her immediate family and closest friends. She never sought to publicize the surgery. She changed her name to Toni Ann Diaz and made the necessary changes in her high school records, her social security records, and on her driver's license. She tried unsuccessfully to change her Puerto Rican birth certificate. She did not change the gender designation on her draft card, however, asserting that it would be a useless gesture, since she had previously been turned down for induction.

Following the surgery she no longer suffered from the psychological difficulties that had plagued her previously. In 1975 she enrolled in the College of Alameda (the College), a two-year college. The College was one of five colleges of the Peralta Community College District.

In spring 1977, she was elected student body president for the 1977–1978 academic year, the first woman to hold that office. Her election and an unsuccessful attempt to unseat her were reported in the College newspaper, the Reporter, in the May 17, June 1, and June 14, 1977, editions. At no time during the election did Diaz reveal any information about her sex-change operation.

In 1977 Diaz was also selected to be the student body representative to the Peralta Community College Board of Trustees. Diaz's selection as student body representative, together with her photograph, appeared in the June 1977 issue of the Peralta Colleges Bulletin.

Near the middle of her term as student body president, Diaz became embroiled in a controversy in which she charged the College administrators with misuse of student funds. The March 15, 1978, issue of the Tribune quoted Diaz's charge that her signature had improperly been "rubber stamped" on checks drawn from the associated students' account.

On March 24, 1978, an article in the Alameda Times-Star, a daily newspaper, mentioned Diaz in connection with the charge of misuse of student body funds.

Shortly after the controversy arose, Jones was informed by several confidential sources that Diaz was a man. Jones considered the matter newsworthy if he could verify the information. Jones testified that he inspected the Tribune's own files and spoke with an unidentified number of persons at the College to confirm this information. It was not until Richard Paoli, the city editor of the Tribune, checked Oakland city police records that the information that Diaz was born a man was verified. The evidence reveals that in 1970 or 1971, prior to the surgery, Diaz was arrested in Oakland for soliciting an undercover police officer, a misdemeanor [a charge of which Diaz was acquitted].

On March 26, 1978, the following item appeared in Jones' newspaper column: "More Education Stuff: The students at the College of Alameda will be surprised to learn their student body president, Toni Diaz, is no lady, but is in fact a man whose real name is Antonio.

"Now I realize, that in these times, such a matter is no big deal, but I suspect his female classmates in P.E. 97 may wish to make other showering arrangements."

Upon reading the article, Diaz became very depressed and was forced to reveal her status, which she had worked hard to conceal. Diaz testified that as a result of the article she suffered from insomnia, nightmares, and memory lapses. She also delayed her enrollment in Mills College, scheduled for that fall.

In her complaint Diaz did not charge that any of the information was untrue, only that defendants invaded her privacy by the unwarranted publicity of intimate facts. Defendants defended on the ground that the matter was newsworthy and hence was constitutionally protected . . .

At trial the jury returned a special verdict and found that (1) defendants did publicly disclose a fact concerning Diaz; (2) the fact was private and not public; (3) the fact was not newsworthy; (4) the fact was highly offensive to a reasonable person of ordinary sensibilities; (5) defendants disclosed the fact with knowledge that it was highly offensive or with reckless disregard of whether it was highly offensive; and (6) the disclosure proximately caused injury or damage to Diaz.

In this appeal defendants challenge the jury's finding on issues Nos. (2) and (3) above. Defendants also urge instructional error and attack the awards of compensatory and punitive damages. Before we address these issues, it is useful

briefly to discuss the competing rights involved herein: the right to privacy and the right to free speech and press.

Background

... The specific privacy right with which we are concerned is the right to be free from public disclosure of private embarrassing facts, in short, “the right to be let alone.” (*Melvin v. Reid* (1931) 112 Cal.App. 285, 289, 297 P. 91.) ... The development of the public disclosure tort in California is well documented. [Citations omitted] public disclosure tort is one of four distinct torts which are actionable under the general rubric of invasion of privacy. The other three are: (1) intrusion upon plaintiff’s solitude or into his or her private affairs; (2) “false light” publicity; and (3) appropriation of plaintiff’s name or likeness to the defendant’s advantage. [Citations omitted]

The public disclosure cause of action is distinct from a suit for libel or “false light,” since the plaintiff herein does not challenge the accuracy of the information published, but asserts that the publicity is so intimate and unwarranted as to outrage the community’s notion of decency. (*Briscoe v. Reader’s Digest Association, Inc.*, *supra*, 4 Cal.3d at p. 542, 93 Cal.Rptr. 866, 483 P.2d 34; *Sidis v. F-R Pub. Corporation* (2d Cir.1940) 113 F.2d 806, 809.) ...

Of course, the right to privacy is not absolute and must be balanced against the often competing constitutional right of the press to publish newsworthy matters. [Citations omitted]

However, the newsworthy privilege is not without limitation. Where the publicity is so offensive as to constitute a “‘morbid and sensational prying into private lives for its own sake, . . .’” it serves no legitimate public interest and is not deserving of protection. (See *Virgil v. Time, Inc.*, *supra*, 527 F.2d at p. 1129; Rest.2d Torts, s 652D, com. h.)

As discerned from the decisions of our courts, the public disclosure tort contains the following elements: (1) public disclosure (2) of a private fact (3) which would be offensive and objectionable to the reasonable person and (4) which is not of legitimate public concern. (See *Forsher v. Bugliosi*, *supra*, 26 Cal.3d at pp. 808–809, 163 Cal.Rptr. 628, 608 P.2d 716; *Briscoe v. Reader’s Digest Association, Inc.*, *supra*, 4 Cal.3d at pp. 541–544, 93 Cal.Rptr. 866, 483 P.2d 34; *Kapellas v. Kofman*, *supra*, 1 Cal.3d at pp. 34–39, 81 Cal.Rptr. 360, 459 P.2d 912.)

Instructional Error

[The court held that the trial court erred in its instructions to the jury (1) defining the right to privacy and (2) placing the burden of proof of newsworthiness upon the defendants.]

Although the judgment is reversed, it is in the interests of judicial administration to address the merits of defendants’ remaining contentions.

The Public Disclosure Tort

1. Private Facts

Defendants next argue that the evidence establishes as a matter of law that the fact of Diaz’s original gender was a matter of public record, and therefore its publicity was not actionable. In support of their contention defendants rely on *Cox Broadcasting Corp. v. Cohn*, *supra*, 420 U.S. 469, 95 S.Ct. 1029, 43

L.Ed.2d 328. That reliance is misplaced. [Note in original: Defendants do not challenge the jury's findings that (1) the matter was publicized and (2) the fact was highly offensive to a reasonable person. There is ample evidence in the record to support these findings.]

Generally speaking, matter which is already in the public domain is not private, and its publication is protected. [Citations omitted]. . . Here there is no evidence to suggest that the fact of Diaz's gender-corrective surgery was part of the public record. To the contrary, the evidence reveals that Diaz took [extensive] affirmative steps to conceal this fact . . . The police records, upon which Jones relied, contained information concerning one Antonio Diaz. No mention was made of Diaz's new name or gender. In order to draw the connection, Jones relied upon unidentified confidential sources. Under these circumstances, we conclude that Diaz's sexual identity was a private matter.

We also do not consider Diaz's Puerto Rican birth certificate to be a public record in this instance. In any event, defendants did not rely on that document and cannot be heard to argue that the information contained therein is public.

Moreover, matter which was once of public record may be protected as private facts where disclosure of that information would not be newsworthy. (See *Briscoe v. Reader's Digest Association, Inc.*, *supra*, 4 Cal.3d at pp. 537–538, 93 Cal.Rptr. 866, 483 P.2d 34 [publication of identity of ex-offender for past crime was held to be improper]; *Melvin v. Reid*, *supra*, 112 Cal.App. at pp. 290–291, 297 P. 91 [disclosure of plaintiff's past life as a prostitute, seven years after she reformed, was actionable]).

2. *Newsworthiness*

As discussed above, whether the fact of Diaz's sexual identity was newsworthy is measured along a sliding scale of competing interests; the individual's right to keep private facts from the public's gaze versus the public's right to know. . . . In an effort to reconcile these competing interests, our courts have settled on a three-part test for determining whether matter published is newsworthy: “[1] the social value of the facts published, [2] the depth of the article's intrusion into ostensibly private affairs, and [3] the extent to which the party voluntarily acceded to a position of public notoriety. [Citations omitted.] [Citation omitted.]” (*Briscoe v. Reader's Digest Association, Inc.*, *supra*, 4 Cal.3d at p. 541, 93 Cal.Rptr. 866, 483 P.2d 34.)

Defendants argue that in light of Diaz's position as the first female student body president of the College, her “questionable gender” was a newsworthy item. . . . Whether a publication is or is not newsworthy depends upon contemporary community mores and standards of decency. [Citations omitted]. . . . “It is the shared understandings of the community that establish the conventions by which it is understood just when others are invited into our lives and when they are not.” (Gerstein, *California's Constitutional Right to Privacy: The Development of the Protection of Private Life*, *supra*, 9 *Hastings Const.L.Q.* at p. 397, fn. omitted.)

Defendants argue that [newsworthiness should be an issue for the court, and that] the right to publish would suffer at the hands of a jury which, unlike the trial judge, would be more likely to use a general verdict in order to punish unpopular speech and persons . . . [However. O]ur trial court judges are entirely capable of correcting such jury overreaching. These same concerns are present in the related field of obscenity law, where community standards define what speech is constitutionally protected. (See *Miller v. California*, *supra*, 413 U.S. 15,

24, 93 S.Ct. 2607, 2614, 37 L.Ed.2d 419.) In an obscenity prosecution the jury is required to make an equally important constitutional decision and has been found to be up to the task. (See *id.*, at p. 25, 93 S.Ct. at 2615.) Accordingly, where reasonable minds could differ, we see no constitutional infirmity in allowing the jury to decide the issue of newsworthiness. (See *Briscoe v. Reader's Digest Association, Inc.*, *supra*, 4 Cal.3d at p. 543, 93 Cal.Rptr. 866, 483 P.2d 34.)

b. Newsworthiness as a Matter of Law

Next, defendants urge that, as the first female student body president of the College, Diaz was a public figure, and the fact of her sexual identity was a newsworthy item as a matter of law. We disagree.

It is well settled that persons who voluntarily seek public office or willingly become involved in public affairs waive their right to privacy of matters connected with their public conduct. . . . The reason behind this rule is that the public should be afforded every opportunity of learning about any facet which may affect that person's fitness for office. [Citations omitted]

However, the extent to which Diaz voluntarily acceded to a position of public notoriety and the degree to which she opened her private life are questions of fact. . . . As student body president, Diaz was a public figure for some purposes. However, applying the three-part test enunciated in *Briscoe*, we cannot state that the fact of her gender was newsworthy per se.

Contrary to defendants' claim, we find little if any connection between the information disclosed and Diaz's fitness for office.

The fact that she is a transsexual does not adversely reflect on her honesty or judgment. (Cf. *Kapellas v. Kofman*, *supra*, 1 Cal.3d 20, 81 Cal.Rptr. 360, 459 P.2d 912 [plaintiff, a mother and candidate for Alameda City Council, who repeatedly left her minor children unsupervised, could not maintain an action against a newspaper for publishing information taken from police records of her children's criminal behavior]; *Beruan v. French* (1976) 56 Cal.App. 3d 825, 128 Cal.Rptr. 869 [candidate for secretary-treasurer of union local could not maintain action based on publication of a letter disclosing his six prior criminal convictions].)

Nor does the fact that she was the first woman student body president, in itself, warrant that her entire private life be open to public inspection. The public arena entered by Diaz is concededly small. Public figures more celebrated than she are entitled to keep some information of their domestic activities and sexual relations private. (See Rest.2d Torts, *supra*, s 652D, com. h.)

Nor is there merit to defendants' claim that the changing roles of women in society make this story newsworthy. This assertion rings hollow. The tenor of the article was by no means an attempt to enlighten the public on a contemporary social issue. Rather, as Jones himself admitted, the article was directed to the students at the College about their newly elected president. Moreover, Jones' attempt at humor at Diaz's expense removes all pretense that the article was meant to educate the reading public. The social utility of the information must be viewed in context, and not based upon some arguably meritorious and unintended purpose.

Therefore, we conclude that the jury was the proper body to answer the question whether the article was newsworthy or whether it extended beyond the bounds of decency.

Insufficient Evidence of Malice

Defendants next urge that the award of punitive damages was improper, since there was insufficient evidence to support a finding of malice on the part of either defendant. The evidence demonstrated that Jones published the article without first contacting Diaz, although he knew that the information contained therein would have a “devastating” impact on her. He testified that he attempted to obtain Diaz’s telephone number from his unidentified sources but was unsuccessful. He admitted that he never telephoned the College in order to contact Diaz. Jones also stated that his comment about Diaz’s classmates in “P.E. 97” making other shower arrangements was a joke, an attempt to be “flip.”

In order to justify the imposition of punitive damages, “the defendant . . . must act with the intent to vex, injure, or annoy, or with a conscious disregard of the plaintiff’s rights.” [Citations omitted.]

Viewing the article as a whole, as well as Jones’ conduct in preparing the article, we cannot say as a matter of law that there was insufficient evidence to support a finding of malice. Here Jones knew that Diaz would certainly suffer severe emotional distress from the publicity alone. Nevertheless, he added to the indignity by making Diaz the brunt of a joke. The defendants’ knowledge of the extent and severity of plaintiff’s injuries is relevant to a finding of malice. (See *Neal v. Farmer’s Ins. Exchange* (1978) 21 Cal.3d 910, 925, 148 Cal.Rptr. 389, 582 P.2d 980.)

The jury could reasonably have inferred from these facts that Jones acted with the intent to outrage or humiliate Diaz or that he published the article with a conscious disregard of her rights.

The fact that Jones verified the story with unidentified sources does not negate the finding of malice. The jury could well have concluded that Jones’ effort to discuss the article with Diaz was de minimis when compared to the magnitude of the expected harm. This is especially true since Jones was under no deadline to publish this article. Under these circumstances, the jury could have reasonably concluded that Jones’ conduct evidenced a callous and conscious disregard for Diaz’s privacy interests. (See, generally, *Cantrell v. Forest Publishing Co.* (1974) 419 U.S. 245, 252, 95 S.Ct. 465, 470, 42 L.Ed.2d 419.) Accordingly, the jury acted well within its discretion in awarding punitive damages.

The Oakland Tribune, Inc., was also liable for punitive damages since the newspaper publishing company reviewed and approved Jones’ article for publication. (See *Egan v. Mutual of Omaha Ins. Co.* (1979) 24 Cal.3d 809, 822, 169 Cal.Rptr. 691, 620 P.2d 141.)

We are mindful of the dangerous, inhibiting effect on speech and press a large punitive damage award can have. (See *Gertz v. Robert Welch, Inc.* (1974) 418 U.S. 323, 349, 94 S.Ct. 2997, 3011, 41 L.Ed.2d 789.) If upon retrial the plaintiff recovers a judgment, we caution the trial court to scrutinize strictly any award of punitive damages to ensure that it is not used to silence unpopular persons or speech and that it does not exceed the proper level necessary to punish and deter similar behavior. (See *Neal v. Farmer’s Ins. Exchange, supra*, 21 Cal.3d at p. 928, fn. 13, 148 Cal.Rptr. 389, 582 P.2d 980; *Virgil v. Time, Inc., supra*, 527 F.2d at p. 1130, fn. 13.) . . .

The judgment is reversed.

3.3.2 Statutory Protection

The *Roberson* decision prompted the enactment of the first statutory protection for the right of privacy. Its scope is limited and since (as we will see) New York

does not as of this writing recognize a common law right of publicity, this statute provides only limited assistance in that area. That the statute is flawed is demonstrated by the notes that follow the *Spahn* case.

New York Civil Rights Law

§50. Right of Privacy

A person, firm or corporation that uses for advertising purposes, or for the purposes of trade, the name, portrait or picture of any living person without having first obtained the written consent of such person, or if a minor of his or her parent or guardian, is guilty of a misdemeanor.

§51. Action for Injunction and for Damages

Any person whose name, portrait or picture is used within this state for advertising purposes or for the purposes of trade without the written consent first obtained as above provided may maintain an equitable action in the supreme court of this state against the person, firm or corporation so using his name, portrait or picture, to prevent and restrain the use thereof, and may also sue and recover damages for any injuries sustained by reason of such use, and if the defendant shall have knowingly used such person's name, portrait or picture in such manner as is forbidden or declared to be unlawful by the last section, the jury, in its discretion, may award exemplary damages. But nothing contained in this act shall be so construed as to prevent [the use of] the name, portrait or picture of any author, composer or artist in connection with his literary, musical or artistic productions which he has sold or disposed of with such name, portrait or picture used in connection therewith.

That the New York statute is intended (at least in part) to deal with feelings is illustrated by the following case.

Spahn v. Julian Messner, Inc., 18 N.Y.2d 324, 221 N.E.2d (1966)

KEATING, JUDGE

[Spahn won 363 major league baseball games, the most by any left-handed pitcher in history, and was elected to the Hall of Fame. Messner published a fictionalized biography of Spahn which portrayed him as a war hero. Spahn, embarrassed at being "famed," sued under the N.Y. Civil Rights Act §§ 50 and 51.]

. . . Over the years since the statute's enactment in 1903, its social desirability and remedial nature have led to its being given a liberal construction consonant with its overall purpose. [Citations omitted] But at the same time, ever mindful that the written word or picture is involved, courts have grafted exceptions and restrictions onto the statute to avoid any conflict with the free dissemination of thoughts, ideas, newsworthy events and matters of public interest [including the "public figure" exception]. . . . But it is erroneous to confuse privacy with "personality" or to assume that privacy, though lost for a certain time or in a certain context, goes forever unprotected [citations omitted]. . . . Thus it may be appropriate to say that the plaintiff here, Warren Spahn, is a public personality, and that, insofar as his professional career is involved, he is substantially without a right to privacy. That is not to say, however, that his "personality" may be fictionalized and that, as fictionalized, it may be exploited for the defendants' commercial benefit through the medium of an unauthorized biography. The fac-

tual reporting of newsworthy persons and events is in the public interest and is protected. The fictitious is not. . . . In the present case, the findings of fact . . . establish “dramatization, imagined dialogue, manipulated chronologies, and fictionalization of events” [and] “publicizes areas of Warren Spahn’s personal and private life, albeit inaccurate and distorted, and consists of a host, a preponderant percentage, of factual errors, distortions and fanciful passages” [quoting the Appellate Division opinion]. . . .

We thus conclude that the defendants’ publication of a fictitious biography of the plaintiff constitutes an unauthorized exploitation of his personality for purposes of trade and that it is proscribed by section 51 of the Civil Rights Law. . . .

NOTES

1. The U.S. Supreme Court (387 U.S. 239 (1967)) vacated the judgment and remanded the case for reconsideration in light of *Time, Inc. v. Hill*, 385 U.S. 347, the New York Court of Appeals reaffirmed its earlier decision (21 N.Y. 2d 124 (1967)), and the U.S. Supreme Court dismissed the defendants’ appeal (393 U.S. 1046 (1969)).

2. The statute applies only to real names, not pseudonyms. *Geisel v. Poynter Products*, 295 F. Supp. 331 (S.D.N.Y. 1968).

3. However, a “look-alike” may qualify as a “portrait or picture” of the plaintiff where the look-alike is placed in an ad in which all the other persons represented in the ad are celebrities, creating the impression that the “look-alike” is actually the real person. *Onassis v. Christian Dior*, 122 Misc.2d 603, 472 N.Y.S.2d 254 (Sup.Ct. N.Y. County 1984), aff’d, 110 App. Div. 2d 1095, 488 N.Y.S.2d 943 (1st Dept. 1985).

4. Written consent is an absolute requirement. In *Brinkley v. Casablancas*, 80 App.Div. 2d 428, 438 N.Y.S.2d 1004 (1st Dept 1981), Christie Brinkley was able to obtain an injunction to prevent a photographer from distributing posters embodying a photograph taken at a photo session at which Ms. Brinkley posed (which was used with Ms. Brinkley’s written consent in an HBO special and in ads therefor). Ms. Brinkley had selected the photo which eventually appeared on the poster and had reviewed poster proofs. Nonetheless, the issuance of the poster without her written consent was a violation of Section 51. Ms. Brinkley was held not to have waived this requirement by her participation.

5. However, once granted in an appropriate manner, consent is final. *Shields v. Gross*, 58 N.Y.2d 338, 461 N.Y.S.2d 254 (1983), involved the unsuccessful attempt on the part of actress Brooke Shields, once she had attained her majority, to prevent the future use of nude photos of her which had been taken of her when she was 10 years old pursuant to a written consent granted by her mother. The Court of Appeals held that the maternal consent was sufficient under Section 51 of the Civil Rights Act to prevent Shields from disaffirming the modeling contract under which the photos had been taken, despite the fact that the parties had failed to follow the procedure for court approval of infants’ contracts under Section 3–105 of the General Obligations Law, distinguishing between a child model and a child performer, indicating as to the former that such a procedure would be impractical in view of the number of modeling engagements involved and the relatively low fees therefor. The Court of Appeals also took note of the fact that Shields did not complain that the new uses were pornographic, merely that she was embarrassed because the photographs were “not me now.” Since the trial court had enjoined the future use of the photos in pornographic publications, the Court of Appeals saw no present need to discuss the question of the unenforceability of contracts violative of public policy (referring to, e.g., Penal Law §235.00 et seq.) The Court did, however, vacate the injunction which the Appellate Division had granted against the further use of the photos in advertising and trade. In a strong dissent, Jasen, J. stated that the state’s strong public policy in support of the protection of children should override paternal consent with respect to its application to future uses.

6. In *Geary v. Goldstein*, 831 F. Supp. 269 (S.D.N.Y. 1993), the plaintiff had previously

appeared in a commercial for Wasa Crispbread. At a later time, the defendant viewed the commercial and decided to do a take-off on it for his sexually explicit late-night cable television program, *Midnight Blue*. He had his staff prepare the segment, which resulted in using portions of the actual Wasa commercial, but then cutting to portrayals of scantily clad couples apparently engaging in oral sex. It was undisputed that the defendant did not obtain Ms. Geary's permission to use her image in the *Midnight Blue* program. The plaintiff advanced several legal theories, the most prominent ones being violation of the New York Civil Rights law and defamation. The defendant argued that a reasonable viewer would certainly infer that plaintiff had no connection with and derived no benefit from this adaptation. The court held this was not necessarily so and ordered a trial on the issue. The court also held there was no absolute privilege under the First Amendment to make a "commentary" such as that asserted by the defendant. A cause of action for violation of plaintiff's right of privacy, as well as defamation, was stated. However, the court dismissed plaintiff's "false light" claim, stating that New York did not recognize this as an independent tort.

7. But even in a situation in which editorial content is present and the use is not explicitly for advertising purposes, the absence of sufficient connection between the editorial content and the offending portrait or picture may give rise to a cause of action under Section 51. In *Ali v. Playgirl, Inc.*, 447 F. Supp. 723 (S.D.N.Y. 1978), defendant's magazine included a poem entitled "The Greatest," and, on the opposite page, a painting of a nude black boxer seated in his corner. In granting a preliminary injunction in favor of Ali under § 51 of the New York Civil Rights Law, Judge Gagliardi held that the painting (captioned "Mystery Man") was recognizable as a likeness of Ali, and that the identification was strengthened by the juxtaposition of the painting with the verse, the title of which used a title Ali had regularly applied to himself. There was no "informational or newsworthy dimension to defendants' unauthorized use of Ali's likeness. Instead, the picture is a dramatization, an illustration falling somewhere between representational art and cartoon, and is accompanied by a plainly fictional and allegedly libellous bit of doggerel." Ali's stature as a famous athlete would not provide a defense.

8. However, in some circumstances, the First Amendment may cover an advertisement which includes the name or picture of a public officer. In *New York Magazine v. Metropolitan Transit Authority*, 987 F. Supp. 254 (S.D.N.Y. 1997), the Southern District refused to permit Mayor Giuliani to direct the MTA to remove subway car cards which stated that *New York Magazine* was "possibly the only good thing in New York Rudy hasn't taken credit for." The magazine had sued claiming a violation of its civil rights under 42 U.S.C. §1983. The mayor had been the subject of articles in the magazine, and there was a satiric aspect to the ads, so the magazine was entitled to rely on the "incidental promotion" defense described in the *Lerman* case (see 3.3.3 below).

9. On the other hand, in one case the use of a name in an advertisement was factually true but unprotected by free speech exceptions. Thus, in *Town & Country Properties, Inc. v. Riggins*, 1995 Va. LEXIS 54 (Va. 1995), involving a Virginia statute similar to New York's, the Virginia Supreme Court upheld a damage award in favor of former Washington Redskins running back John Riggins when a real estate agency used the phrase "John Riggins' Former Home" on a flyer seeking to sell the house on behalf of Riggins' ex-wife.

3.3.3 Defensive Aspects

The right of privacy, however, must co-exist with state and federal rights of free speech. The same public official/public figure considerations that figure so strongly in the area of defamation also apply in the area of privacy, as does the concept of "newsworthiness" (even, in the *Bernstein* and *Leopold* cases which follow, as to events that occurred in the past, and in some circumstances, e.g., the *Sidis* case, cited in the *Bernstein* opinion, where the person with whom the

media are concerned has assiduously sought anonymity but is still considered newsworthy). As we see in the *Rosemont* case, no public figure can exercise a monopoly with respect to his/her life story.

In *Rosemont Enterprises, Inc. v. Random House, Inc.*, 58 Misc.2d 1, 294 N.Y.S.2d 122 (Sup. Ct. N.Y. County 1968), *aff'd*, 32 A.D.2d 892, 301 N.Y.S.2d 948 (1st Dept. 1969), Howard Hughes sought to forestall the publication of an unauthorized biography by forming a wholly owned corporation and assigning to it the exclusive rights to his life story. In addition, the corporation bought up rights to a series of articles previously published about Hughes, to support an action for copyright infringement against Random House, whose book obviously covered some of the same events depicted in the articles. This failed, as did Hughes' claim for violation of his right of privacy under §§ 50 and 51 of the New York Civil Rights Law. In upholding the lower court's dismissal of Hughes' action, the court observed that

[a] public figure, whether he be such by choice or involuntarily, is subject to the often-searching beam of publicity and, in balance with the legitimate public interest, the law affords his privacy little protection. . . . That the New York statute gives a public figure no right to suppress truthful accounts of his life is now settled in the most unequivocal terms. . . . While plaintiff's condemnation of the literary merit and creative standards used in producing defendants' book might be of interest in a critique of the work appearing in a book review section, such arguments are wholly irrelevant in the present context. . . . The remaining ground on which plaintiff seeks to justify this suit is the assignment to it of Hughes' "right of publicity." This is a right that recognizes the pecuniary value which attaches to the names and pictures of public figures, particularly athletes and entertainers, and the right of such people to this financial benefit. . . . The publication of a biography is clearly outside the ambit of the "commercial use" contemplated by the "right of publicity" and such right can have no application to the publication of factual material which is constitutionally protected. Just as a public figure's "right of privacy" must yield to the public interest so too must the "right of publicity" bow where such conflicts with the free dissemination of thoughts, ideas, newsworthy events, and matters of public interest.

Because of such considerations, a public figure can have no exclusive rights to his own life story, and others need no consent or permission of the subject to write a biography of a celebrity. . . .

The concept of newsworthiness is given broad application by the courts even where (as in the following case) the connection between the article and its subject is extremely attenuated. In addition, this case illustrates the degree of importance which attaches to the determination as to whether a defendant is a "publisher" or a "bookseller."

Lerman v. Flynt Distributing Co., 745 F.2d 123 (2d Cir. 1984)

CARDAMONE, J.

Defendant, a national distributor of magazines in which offensive material concerning plaintiff appeared, appeals from a judgment in plaintiff's favor. In her action plaintiff asserted causes of action for libel, violation of a statutory right of privacy, and appropriation of the common law right to publicity. In every invasion of privacy suit there is a course to be run in order for plaintiff to reach the goal or recovery. In this case, plaintiff's libel action was dismissed and her right

to publicity claim fails to fit within that tort. The civil rights cause does not lie as one for advertising purposes, as that term is defined under state law; but it does state a cause of action for defendant's invasion for trade purposes of his right to privacy. Having successfully progressed that far, plaintiff would need to demonstrate a level of defendant's fault on that privacy claim sufficient to satisfy constitutional protection for freedom of the press. Here, on the final lap, plaintiff's proof falls short.

I Background

On February 29, 1980 the plaintiff Jackie Collins Lerman received a package at her home in London, England. An accompanying letter from a publicity agent who had formerly worked with Ms. Lerman explained that nude photographs, supposedly of plaintiff, appeared in the enclosed advance copy of *Adelina* magazine. Plaintiff discovered that the May 1980 issue of *Adelina* had misidentified her as an actress who appeared in Ms. Lerman's and her husband Oscar Lerman's movie entitled "The World is Full of Married Men." Two black and white photographs of the anonymous actress printed from the movie film appeared on pages 120–21 of the magazine. The misidentified actress appears topless in one of the pictures and in an "orgy" scene in the other. The caption identifies the photos as being Ms. Lerman and labels her as the "starlet" who appeared in an orgy scene in the film.

The cover of the magazine proclaimed to its readers: "In the Nude from the *Playmen* archives . . . Jackie Collins." The short article accompanying the actress's photo with Ms. Lerman's name comments on the increasing willingness of "serious" actresses to appear nude in films. While Ms. Lerman authored the book and wrote the screenplay for "Married Men" and her husband directed the movie, she did not appear in the movie, clothed or otherwise, and has never appeared nude in public.

Immediately upon receipt of this package, Ms. Lerman retained a lawyer and three weeks later—on March 24, 1980—commenced an action. . . . Plaintiff sought an injunction and damages based on (a) libel (b) defendant's violation of New York's Civil Rights Law §§ 50–51 and (c) invasion of her common law right to publicity.

On March 31 the district judge issued a preliminary injunction restraining the distribution of *Adelina*. While the extent of the original defendants' compliance with that injunction is disputed, it is clear that Publishers Distributing informed all of its more than 500 nationwide wholesale customers of Ms. Lerman's lawsuit and the outstanding injunction, and requested that all unsold copies of the magazine be returned. . . .

In June 1983, . . . plaintiff proceeded to trial before a jury against Flynt Distributing. Ms. Lerman sought damages under her New York statutory privacy claim and her common law right to publicity arising from the May 1980 publication. Inasmuch as liability had already been determined in her favor by the trial court's grant of summary judgment, she also sought damages for distribution of the June 1980 and January 1981 editions of *Adelina*. After a short trial the jury returned a special verdict determining that defendant Flynt Distributing was liable for the May 1980 issue and awarding Ms. Lerman a total of \$7 million in compensatory and \$33 million in exemplary damages. The trial court struck \$30 million from the exemplary damage award, leaving intact an award of \$7

million compensatory and \$3 million exemplary damages. It is from this \$10 million judgment that defendant Flynt Distributing has appealed.

Since plaintiff has not cross-appealed, we need not consider whether the district court correctly dismissed plaintiff's libel claim on the ground that she failed to plead special damages. Discussion will focus primarily on two causes of action—New York's statutory action for violation of the right of privacy and the common law action for violation of the right to publicity. The parties agree that New York law governs in this diversity case.

II Grounds for Recovery Under State Law

... On its face the New York Privacy statute seems to provide a cause of action only for "commercial appropriation." ...

The terms "advertising purposes" and "trade purposes" constitute the two prongs of the statute and their meaning, as construed by New York courts, is crucial to an analysis of plaintiff's claims in this case.

1. Advertising Purposes Under § 51

Where the use of plaintiff's name is solely for the purpose of soliciting purchasers for defendant's products the advertising purposes prong of the statute is violated. ...

When the advertisement is merely incidental to a privileged use there is no violation of § 51. ... Plaintiff cannot argue that the use of her name (accompanied by a photo of an unclad woman) in the May 1980 issue of *Adelina* was for advertising purposes. She did not show a "use for the solicitation of patronage for a particular service or product." ... The June 1980 and January 1981 uses could be viewed as for advertising purposes since they solicited orders for back issues of *Adelina*. But, the republications in the June 1980 and January 1981 subscription solicitations were incidental to the May 1980 publication. Because the solicitations were designed simply to convey the nature and content of the past *Adelina* issues, they cannot form the advertising use prong of § 51. ...

Trade Purposes Under §51

Next, we examine whether the uses of plaintiff's name were for "purposes of trade" under the statute. Because the media in reporting the news routinely uses names and likenesses without consent, New York courts early recognized the need to encourage the free exchange of ideas and created a broad privilege for the legitimate dissemination to the public of news and information.

... The trade purposes prong of the statute may not be used to prevent comment on matters in which the public has a right to be informed. ... Where plaintiff is a public personage or an actual participant in a newsworthy event, the use of his name or likeness is not for purposes of trade within the meaning of § 51. ... Yet, there are limits to the privilege: "While one who is a public figure or is presently newsworthy may be the proper subject of news of informative presentation, the privilege does not extend to commercialization of his personality through a form of treatment distinct from the dissemination of news or information." ... Since "newsworthiness" and "public interest" are to be "freely defined," ... the use of plaintiff's name in connection with the movie "The World is Full of Married Men" is a matter in which the public plainly has a legitimate interest.

Plaintiff may still be entitled to obtain the sanctions of § 51 under the trade

purposes prong even where the use is in conjunction with a report on a matter of public interest, but in order to do so must meet one of two tests. First, a plaintiff may attempt to demonstrate that the use of plaintiff's name or likeness has no real relationship to the discussion, and thus is an advertisement in disguise. . . .

Alternatively, a plaintiff may claim that defendant forfeited the privilege for reporting matters on which the public has the right to be informed by proving that the defendant's use was infected with material and substantial fiction or falsity. . . . Even when so infected, for defendant to lose the newsworthy privilege plaintiff must prove that defendant acted with some degree of fault regarding the fictionalization or falsification. . . .

We cannot accept plaintiff's first argument that the photo in this case has "no real relationship" to any discussion in *Adelina*. Ms. Lerman wrote the book and screenplay that contained scenes of nudity for the film "The World is Full of Married Men." While the article in *Adelina* was vapid it did relate to the growing use of nudity in films. Insofar as the use of the name "Jackie Collins" is concerned the May 1980 use must be considered incidental to the story, and hence not objectionable as a "disguised advertisement" under § 51. . . . Further, plaintiff's status as an author and screenwriter of a film in the erotic genre makes her claim of "no connection" with these particular photographs unpersuasive. . . . Thus Ms. Lerman was not an innocent bystander without any relationship to the subject matter of the article and to the photograph.

Plaintiff's reliance on the alternative basis for defeating the newsworthy privilege rests on firmer ground, that is, the fictionalization or falsification ground. . . .

When presented with a factual error which brings an otherwise privileged newsworthy use within the trade purpose prohibition, the Supreme Court and the New York Court of Appeals have required that there be a finding of fault. . . .

We agree that plaintiff's name in all three *Adelina* issues are [sic] fictionalized or false and therefore lose the privilege that ordinarily extends to reporting matters in which the public has an interest. Further, the degree of falsity here was severe since plaintiff was not the actress pictured. Were it not for constitutional concerns this falsity would permit a properly instructed jury to find the uses here to be for trade purposes under § 51 of the New York Civil Rights law. But, precisely because of First Amendment guarantees Flynt Distributing cannot be held liable for the use of plaintiff's name unless it acted with the requisite fault, and it is on this last point that plaintiff's proof fails as we will later explain. . . .

C. Plaintiff's Claim of a Right to Publicity

In her complaint, plaintiff also included a cause of action based upon her common law right to publicity on which the district court granted her summary judgment. It is unnecessary to determine the precise outlines of that right under New York law because it is not implicated. Here, the right to publicity is essentially identical to the right to be free from commercial appropriation. . . . In light of the proof, a claim for commercial appropriation or violation of the right to publicity does not lie. . . . The right is one designed to encourage intellectual and creative works and to prevent unjust enrichment.

In a publicity case the plaintiff is not so concerned that the use occurs; he simply wants to be the one to decide when and where, and to be paid for it. . . .

Because the plaintiff must generally have developed a property interest with financial value in order to prove that he suffered damages, the right is most

frequently invoked by public figures or celebrities. . . . Thus, Ms. Lerman's insistence that she is a private person insofar as these *Adelina* articles are concerned does not square with her claim that her right to publicity was appropriated. Plaintiff did not establish a prima facie cause of action for violation of her right to publicity. She has never exploited the value of her nude appearance and obviously cannot claim to have developed a property interest in the subject matter of this alleged infringement. Moreover, proof that this is not a right to publicity case is in plaintiff's demand for relief—she sought to enjoin publication and to salve her wounded feelings—neither of which are the kinds of injuries that the publicity tort is designed to remedy. There is simply no evidence that any defendant deliberately exploited plaintiff's fame and fortune. Inasmuch as the facts fail to establish a violation of plaintiff's right to publicity as a matter of law, her cause of action on that theory should have been dismissed.

D. False Light Tort Distinguishable from Right to Publicity

Despite this conclusion, we undertake a brief analysis of the false light tort because it is essential to an understanding of the application of the First Amendment to § 51. While not specifically alleged in her complaint, Ms. Lerman's action presents a classic false light claim, which is distinguishable from her right to publicity cause of action. In *Time, Inc. v. Hill*, 385 U.S. 374, 87 S.Ct. 534, 17 L.Ed.2d 456 (1967) the Supreme Court observed that New York Courts have construed the language of § 51 broadly enough to encompass false light claims. . . . The Court stressed that where falsity is the gravamen of a § 51 claim, First Amendment guarantees permit imposition of liability only where actual malice is shown. . . .

Assuming the requisite proof of fault the facts of this case state a cause of action under [restatement] section 652E. The nude actress pictured was not Ms. Lerman. Whether or not this misidentification is defamatory to Ms. Lerman . . . we cannot conclude that such publicity is not "highly offensive to a reasonable person." . . . Hence, if a false light claim under the Restatement rubric is recognized in New York, Ms. Lerman has stated a claim under it.

In a false light case, however styled under a state statute or common law, the gravamen of the tort is falsity; not, as here, simply a factual error. Further, regardless of whether Ms. Lerman's cause of action is cast in terms of libel or false light or under the falsified trade purposes prong of § 51, the same constitutional protections apply. . . . Therefore, we must address the federal constitutional question to determine the appropriate standard of fault plaintiff should have been required to meet and to evaluate plaintiff's proof under that constitutional standard. In what follows we explain why plaintiff's proof falls short, defeating her cause against defendant.

III Constitutional Issues

A. Public or Private Figure

To begin, the district court erroneously ruled in 1980 that the public figure question had application only to plaintiff's dismissed libel claim. . . .

No doubt defendant has shown that plaintiff successfully invited public attention to her views and has maintain continuing access to the media. Nonetheless, we agree with the district court that Ms. Lerman is not an all purpose public figure. . . .

But we believe Ms. Lerman is a limited purpose public figure required to satisfy the New York Times standard of fault. By voluntarily devoting herself to the public's interest in sexual mores, through extensive writing on this topic, reaping profits and wide notoriety for herself in the process, Ms. Lerman must be deemed to have purposefully surrendered part of what would otherwise have been her protectable privacy rights, at least those related in some way to her involvement in writing her books and screenplays. . . .

The difficult question is whether Ms. Lerman injected herself into a "public controversy" related to the offending publication. . . . The relations between the sexes and public nudity are topics of continued and general public interest and may be considered "public controversies" even though not involving political debate or criticism of public officials. A public "controversy" is any topic upon which sizeable segments of society have different, strongly held views. Certainly various groups today have vastly divergent views on the propriety of female or male nudity in films and in the print media generally. In the public controversies that daily swirl about—be they politics, pocketbook issues, or, as here, contemporary standards regarding nudity—some plunge into the arena and enter the fray. Plaintiff, as a controversial, outspoken authoress and screenwriter advocating equal nudity, was such a willing participant in this public controversy. . . .

B. Newsworthiness for First Amendment Purposes

The district court adopted plaintiff's argument that an actual malice standard of fault does not apply even if plaintiff is a public figure because the use was "completely exploitive" and outside the broad category of matters of public interest and therefore not newsworthy. This led it erroneously to conclude that the distributor could be held strictly liable for disseminating the magazine without treading on the First Amendment. On the contrary, *Adelina* falls far short of crossing the line that would cause it to forfeit First Amendment protection. . . . The factual error in this case would be actionable only if the distribution of *Adelina* loses First Amendment protection under a standard analogous to that which causes libelous speech to lose such protection. . . . We cannot accept a view that a publication must meet an independent standard of newsworthiness to stand under the umbrella of First Amendment protection. Even "vulgar" publications are entitled to such guarantees. . . .

The *Adelina* article unquestionably would have been within the broad definition of a newsworthy matter or a matter of public interest or concern had Ms. Lerman in fact been the "starlet" pictured. That there was a factual error does not alter the subject matter of the offending publication. . . .

C. Proof of Actual Malice

1. Actual Malice of Distributors

First Amendment guarantees have long been recognized as protecting distributors of publications. . . .

Obviously, the national distributor of hundreds of periodicals has no duty to monitor each issue of every periodical it distributes. Such a rule would be an impermissible burden on the First Amendment. At the same time a distributor as an integral part of the movement of information from the creator to the reader—the distributor here was to receive 46% of the profit from the sale of the magazine—cannot be entirely immune from liability. When a distributor acts

with the requisite scienter in distributing materials defaming or invading the privacy of a private figure it must be subject to liability. . . .

The essential inquiry is whether those in charge of Flynt Distributing had serious doubts about the accuracy of the identification of Ms. Lerman in *Ade-
lina*. . . .

Inasmuch as the district court failed to instruct the jury that it must find Flynt Distributing to have acted with actual malice, the jury's verdicts must be reversed. Nevertheless, since the record is complete with regard to Flynt Distributing's knowledge and conduct, both of which are necessary to prove a "knowing use" for punitive damages under § 51, we examine the evidence to determine whether a new trial is warranted.

2. Actual Malice in This Case

. . . The question to decide is whether the trial judge should have granted summary judgment to the defendant based on the lack of evidence of actual malice.

In the first place, plaintiff failed to offer proof sufficient even to impose a duty on defendant Flynt Distributing to inquire as to the May 1980 issue and the district court specifically found that there was no "knowing" use under § 51 by defendant of plaintiff's name in that issue. Further, there was no proof that any of defendant's employees had reason to believe that Chuckleberry (the publisher) would misidentify Ms. Lerman as the actress pictured. . . .

Similarly, with respect to the June 1980 and January 1981 issues there is no evidence in the record showing that Flynt Distributing knew or recklessly disregarded whether these editions contained any mention of plaintiff, let alone any factual error concerning her. . . . Flynt Distributing may be held liable only if plaintiff presented clear and convincing evidence that some high level employee of the corporation acted with reckless disregard of the fact that false matter had been published by Chuckleberry. The only evidence pointing in that direction is the conceded fact that Flynt Distributing knew of plaintiff's lawsuit against Chuckleberry and Publishers Distributing for the May 1980 issue, plus a claimed failure thereafter by it to investigate. Plaintiff cites no other evidence in her brief, and careful examination of the voluminous record in this case reveals none.

Absent are any facts demonstrating that anyone in the defendant distributing company had a subjective awareness of probable falsity. Notice of the lawsuit regarding the May issue standing alone certainly is not clear and convincing evidence as to knowledge for June and January, especially given the minuscule mention of plaintiff in those issues. Moreover, mere failure to investigate, while relevant, is also not itself sufficient to show actual malice. . . .

IV The Damage Awards

The jury awarded plaintiff a total of seven million dollars in compensatory damages, which the trial court refused to reduce. No doubt such an enormous verdict chills media First Amendment rights. But a verdict of this size does more than chill an individual defendant's rights, it deep-freezes that particular media defendant permanently. Putting aside First Amendment implications of "megaverdicts" frequently imposed by juries in media cases, the compensatory damages awarded shock the conscience of this Court. They are grossly excessive and obviously a product of plaintiff's counsel's appeals to the passion and prejudice of the jury. It cannot seriously be contended that Ms. Lerman's lacerated feelings

are worth anything close to \$7 million. No proof was offered that she sought or needed professional help because of these publications and the fact she completed a novel between March and September in 1980 refutes her contention that she was unable to work. In any event, damages under the New York statute often are only nominal since they are designed primarily to compensate for injury to feelings. . . .

Finally, we note that reputational damage to Ms. Lerman could not have been great. Only the readers of *Adelina*, a magazine of relatively modest circulation that Ms. Lerman describes as “sordid” and “obscene” would have seen the offending material. In fact, given the number of famous persons portrayed in this fashion, one wonders whether such pictures are even capable of producing genuine reputational harm. Even assuming the word would get around to those whose esteem of plaintiff would be diminished, the main source of publicity for the pictures came not from the magazine’s publication, but from Ms. Lerman’s lawsuit and statements to the press.

The jury also awarded a total of \$33 million in punitive damages, more than plaintiff demanded in her complaint and over six times greater than plaintiff’s counsel requested in this summation. This award also shocks our conscience and reinforces our conclusion that the verdicts represent appeals to passion or prejudice.

V Conclusion

The availability of damages depends on plaintiff’s ability to satisfy the actual malice standard of *New York Times v. Sullivan* that plaintiff as a limited purpose public figure was required to meet. Since Ms. Lerman cannot present clear and convincing evidence of defendant’s requisite fault with respect to the factual error disseminated, the judgment awarding her ten million dollars in compensatory and punitive damages is reversed as a matter of law and her complaint against Flynt Distributing is dismissed.

[BONSAL, J., dissenting in part, would give the plaintiff an opportunity for further discovery and a trial on the issue of actual malice, that is whether defendant acted with knowledge of falsity or in reckless disregard of the truth.]

Even where an individual is not a prominent personality, like Howard Hughes (who had already begun to retreat from his public prominence at the time of the *Rosemont* case), a popular novelist like Jackie Collins, or a public official like Mayor Giuliani, an individual may attract public attention because of events with which he/she is involved, and this involvement may entitle the media to continue to deal with him for (in some cases, many) years. This is illustrated by the *Bernstein* case which follows.

**Bernstein v. National Broadcasting Company, 129 F. Supp. 817
(D.D.C., 1955), *aff’d* 232 F.2d 369 (D.C.Cir 1956), *cert. denied*, 352
U.S. 945 (1956)**

KEECH, J.

In 1919 plaintiff, Charles S. Bernstein was convicted of bank robbery in Minnesota and sentenced to imprisonment for forty years. After serving nine years, he was paroled and pardoned. In 1933 in the District of Columbia, plaintiff under

the name Charles Harris, was tried and convicted of first-degree murder and sentenced to death by electrocution. In 1934 the conviction was affirmed, *Harris v. U.S.* 63 App.D.C. 232, 71 F.2d 532, and a petition for certiorari denied by the Supreme Court, 293 U.S. 581, 55 S.Ct. 94, 79 L.Ed. 678. Through the efforts of a number of interested persons and committees working in plaintiff's behalf, and partly as the result of the work of Martha Strayer, a reporter on the *Washington Daily News*, in 1935 the death sentence was commuted to life imprisonment. In 1940, after plaintiff had served five years at various federal institutions, he received a conditional release from his life sentence, and in 1945 a Presidential pardon. [Thereafter, Bernstein claimed, he led a quiet, private life among people who did not know about his past, and never sought publicity or profit from his identity.]

Plaintiff's deposition shows that from the time of the trial until 1940, when plaintiff secured conditional release, his story was given much publicity by the newspapers and others working on his behalf. Subsequent to his release in 1940, he obtained government employment in the District of Columbia, holding various positions and attaining Civil Service Grade CAF-11. In 1945, this employment ended, and thereafter, from 1945 to 1951, he lived in Front Royal, Virginia, operating a "resort lodge." In February 1953, some time after the filing of these actions, plaintiff again secured government employment in the District, rooming in Washington but still maintaining his family home in Front Royal, Virginia.

In 1936 or 1937 a detective story magazine carried an article on plaintiff's case. In 1948 a radio program told plaintiff's story, using Martha Strayer's name, in a fictionalized version, but so similar to the facts that plaintiff and several others identified the story as his.

On January 18, 1952, the defendant NBC telecast "live" over 39 stations in its network a television program . . . entitled "The Big Story" . . . a fictionalized dramatization based on the plaintiff's conviction and pardon, and lauding the efforts of Miss Strayer, the *Daily News* reporter, toward securing commutation of plaintiff's sentence . . . The only true names used were those of Martha Strayer, the *Washington Daily News*, the President of the United States, and the District of Columbia. Over forty-three of the NBC stations telecasting "The Big Story," it was announced a week prior to the telecast here involved, that the following week's program would tell the true story of how Martha Strayer fought to save the life of an innocent man convicted of murder. On January 7, 1952, NBC issued a press release concerning the program. Neither the television announcement nor press release mentioned plaintiff's name.

Plaintiff alleges that, although his true name was not used in the telecast, the actor who portrayed him resembled him physically and plaintiff's words and actions were reproduced both visually and aurally, creating a portrayal of plaintiff recognizable to him and to his friends and acquaintances, and clearly identifying plaintiff in the public mind. . . .

Plaintiff alleges that the telecast of this program constituted "a willful and malicious invasion of . . . [his] right of privacy as recognized by the laws of [28 states] and the District of Columbia. . . ."

Defendant in its motion for summary judgment contends that [plaintiff fails to state] a cause of action upon which relief may be granted. . . .

The telecast here involved was one of a series of similar dramatizations, commending the accomplishments of newspaper reporters in bringing criminals to justice or in securing the release of innocent persons convicted of crime. In each

of the programs the actual name of the reporter and his paper were used, but the names of other persons portrayed were changed, and the incidents were fictionalized for dramatic effect.

On this particular program, the man convicted of crime was called Dave Crouch and the murdered man Woody Benson. Benson, a gambler running a game in Alexandria, was shot as he walked along the sidewalk in the District of Columbia, by a man riding in a car. Crouch was arrested while asleep on a bench in a bus terminal in Washington. He was inadequately defended at his trial by a Mr. Kendall, an inexperienced court-assigned counsel, who did not call as an alibi witness Crouch's "common-law wife," Helen Slezak, with whom Crouch had spent the day of the murder in New York. Mr. Kendall showed lack of confidence in the success of the defense, in view of Crouch's previous conviction in Minnesota of which he was innocent and for which he had been pardoned. At the trial, the court admitted a detective's statement as to Crouch's Minnesota conviction, omitting any reference to the pardon. Kendall did not call Helen as a witness, on the ground that the "blue ribbon jury," "all respectable property owners," might be prejudiced against a common-law wife, although Dave explained to him that they were not legally married because Helen's husband would not give her a divorce. Crouch was convicted on the testimony of a Mrs. Hedlund, a garrulous middle-aged woman, who positively identified him as the murderer whom she had seen, as he fired the shot, when she looked from the window of her upstairs apartment. After conviction, Crouch was pictured as desperately playing solitaire in his cell and checking off on a calendar the days leading up to his execution, whenever Miss Strayer called upon him there.

Martha Strayer was portrayed as interesting a Mr. Burbage, an attorney of thirty-five years' experience in the Department of Justice, in attempting to have Crouch's sentence commuted, and herself discovering that Mrs. Hedlund could not have seen the murderer from her window, which would have been obscured at the time of the crime by leafed-out branches of a tree. Miss Strayer's newspaper stories were credited with bringing into her office a Mrs. Watson, a theretofore unknown eyewitness, who had clearly seen the crime and testified that the murderer was not Dave Crouch. The program represented Miss Strayer as the person whose faith in the innocence of Crouch and investigations and newspaper articles arousing public opinion resulted in saving Crouch the very day before the execution. In the final scene of the program, Crouch was shown with Mr. Burbage thanking Miss Strayer in her office, following his release from "Lewisburg Prison."

The record in the actual criminal case and the pleadings and deposition of plaintiff in this case reveal: The plaintiff, as Charles Harris, was convicted of first-degree murder in connection with the shooting of Milton White Henry, a Washington gambler, on April 21, 1932, in the District of Columbia. About 6 A.M., while Henry, in his car, was stopped behind a milk wagon in the narrow street in front of his apartment, he was killed by a man who alighted from a Hudson automobile, shot him, and then jumped on the running board of the Hudson, which sped away. Harris was arrested in Philadelphia, while looking in a store window, accompanied by his "wife." At the trial, he was identified as the murderer by a Mr. Rhodes, an attorney with the Federal Trade Commission, who testified that he had seen Harris at the time of the shooting from the window of his apartment and heard Harris tell the driver of the Hudson to "keep moving" and "step on it." Mr. Rhodes testified that the trees in front of his apartment

were in bud at the time and “might have been forming leaves,” but that he had an unobstructed view of the shooting. The driver of a laundry truck testified that on the day before the crime he had passed by the scene of the murder on three different delivery trips and, five different times, had seen the same car, identified as that driven by the men who committed the murder, with the same two men in it, and that the defendant was one of them.

At the trial Harris was represented by two attorneys of his own selection, one of whom had eight years’ experience in the District of Columbia and a largely criminal practice. Plaintiff did not take the stand in his own behalf, but defense witnesses testified that he was in New York at the crucial time. The woman with whom Harris was living in New York was not called as a witness because counsel “didn’t want to besmirch her character.” Harris and the woman were not legally married because he had a living wife, and the woman’s name did not in any way resemble “Helen Slezak.” On appeal, Harris was represented by different counsel, one of whom, Mr. Burkinshaw, had had about two or three years’ experience with the Department of Justice.

After affirmance of the conviction, new evidence was submitted to the Department of Justice in the form of affidavits from the Department of Agriculture and the Weather Bureau that the trees in front of Mr. Rhodes’ apartment would have been fully leafed out at the time of the crime and the testimony of an eyewitness who came forward after the trial, a lady who, after viewing Harris at the Jail, stated he was not the man who did the shooting. Miss Strayer did interview Harris at the Jail on a number of occasions and discussed his case with him, but always in the Superintendent’s office or in the “rotunda,” not in Harris’ cell. Harris did not play solitaire in his cell, as prisoners were not permitted to have cards. He spent a great deal of time reading history, philosophy, and psychology. He did not cross the days off a calendar prior to the execution date, which was postponed eight times by the court. The death sentence was stayed by warrant of reprieve signed by the President four days before the date fixed for electrocution. During the two years he was confined in the “death row” at the District Jail awaiting execution, plaintiff did undergo great mental and emotional strain. The plaintiff, after his release from Leavenworth, went to see Miss Strayer in her office to thank her for her part in securing his release, but he is not sure whether his attorney accompanied him.

Plaintiff alleges that the actor who portrayed Dave Crouch resembled him physically, as he appeared at the time of his trial. For the purpose of this motion, the court will assume that this resemblance exists.

Thus, the points of similarity between the plaintiff’s life and the television story of Dave Crouch are reduced to: a conviction in the District of Columbia of first-degree murder in connection with the shooting of a gambler in Washington; failure to call a “common-law wife” as an alibi witness; Miss Strayer’s effective interest in proving the defendant’s innocence; securing of other counsel after the trial; emotional turmoil of the convicted man while awaiting execution; additional evidence as to the leaves in front of an eyewitness’ apartment window; another eyewitness coming forward, after affirmance of the conviction, to state that defendant was not the murderer; thanking of Miss Strayer by the defendant after his release; and a physical resemblance between the actor and the plaintiff as he was twenty years ago.

Plaintiff concedes that there was nothing defamatory of him in the telecast and bases his entire complaint on the alleged invasion of his privacy. . . .

Counsel further concedes that plaintiff's conviction and commutation of sentence, when they occurred, were matters in the public domain, and that a dramatization at that time based on the facts and containing nothing defamatory, similar to the program in question would not have been an invasion of plaintiff's privacy. It is contended, however, that by reason of the lapse of time since plaintiff's release in 1940 and the non-public character of his activities since that date, his life has regained its private character. . . .

As to . . . whether a public person may, by the passage of time in private life, re-acquire a right of privacy as to his past life, there is a divergence of opinion.

The Restatement of the Law of Torts, § 867, summarizes the right of privacy very generally, stating: "A person who unreasonably and seriously interferes with another's interest in not having his affairs known to others or his likeness exhibited to the public is liable to the other."

The Restatement then notes that the protection accorded one's privacy is relative to the custom of the time and place and to the habits and occupation of the plaintiff, and that one must expect the ordinary incidents of community life of which he is a part. It points out that public figures must pay the price of unwelcome publicity and that those who unwillingly come into the public eye in connection with a criminal prosecution, innocent or guilty, are objects of legitimate public interest during a period of time after their conduct or misfortune has brought them to the public attention, and that "until they have reverted to the lawful and unexciting life led by the great bulk of the community, they are subject to the privilege which publishers have to satisfy the curiosity of the public as to their leaders, heroes, villains and victims."

Several cases have been cited to the court which have dealt with the question whether time brings protection to a former public figure. Two in particular, which reach opposite conclusions, are relevant to the problem. In *Sidis v. F. R. Pub. Corp.*, 2 Cir., 113 F.2d 806, 809, 138 A.L.R. 15, certiorari denied, 1940, 311 U.S. 711, 61 S.Ct. 393, 85 L.Ed. 462, a former child prodigy, who had sought oblivion for many years, loathing public attention, claimed an invasion of his right of privacy by an unvarnished factual account in *The New Yorker* magazine of his life (using his name), including the many years which he had lived out of the public eye and touching on many personal details. It was there held by the federal court sitting in New York (a jurisdiction which has rejected the right of privacy as unrecognized at common law and has strictly interpreted its statute affording limited protection) that, although the plaintiff had dropped out of sight after 1910, "his subsequent history, containing as it did the answer to the question of whether or not he had fulfilled his early promise, was still a matter of public concern," and that *The New Yorker* sketch of the life of such an unusual personality possessed considerable popular news interest. . . .

In *Melvin v. Reid*, 1931, 112 Cal.App. 285, 297 P. 91, 93, a reformed prostitute who had been tried and acquitted on a murder charge, sued for invasion of her privacy by a motion picture based on the facts of her past life, disclosing her former occupation, and using her true maiden name. After stating that the right of privacy does not exist as to public persons, in the dissemination of news and news events, in the discussion of events of the life of a person in whom the public has a rightful interest, or where the information would be of public benefit, and concluding that the mere use in the motion picture of incidents from the life of plaintiff, taken from the public records, was not actionable, the court said:

One of the major objectives of society as it is now constituted, and of the administration of our penal system, is the rehabilitation of the fallen and the reformation of the criminal. Under these theories of sociology, it is our object to lift up and sustain the unfortunate rather than tear him down. Where a person has by his own efforts rehabilitated himself, we, as right-thinking members of society, should permit him to continue in the path of rectitude rather than throw him back into a life of shame or crime. Even the thief on the cross was permitted to repent during the hours of his final agony.

We believe that the publication by respondents of the unsavory incidents in the past life of appellant after she had reformed, coupled with her true name, was not justified by any standard of morals or ethics known to us, and was a direct invasion of her inalienable right guaranteed to her by our [California] Constitution, to pursue and obtain happiness. (Emphasis supplied.)

It should be noted that in each of these cases the complainant was identified by name in the publication by defendant, as the plaintiff in this case was not in the telecast. . . . This court agrees that we are not so uncivilized that the law permits, in the name of public interest, the unlimited and unwarranted revival by publication of a rehabilitated wrongdoer's past mistakes in such a manner as to identify him in his private setting with the old crime and hold him up to public scorn. Persons formerly public, however, cannot be protected against disclosure and re-disclosure of known facts through the reading of old newspaper accounts and other publications, oral repetition of facts by those familiar with them, or reprinting of known facts of general interest, in a reasonable manner and for a legitimate purpose. . . .

Public interest must be balanced against the individual's rights. Though fairness and decency dictate that some boundary be fixed beyond which persons may not go in pointing the finger of shame at those who have erred and repented, reasonable freedom of speech and press must be accorded and the fact of social intercourse must be recognized. Public identification of the present person with past facts, however, would constitute a new disclosure and, if unwarranted, would infringe upon an existing privacy. Thus, it would appear that the protection which time may bring to a formerly public figure is not against repetition of the facts which are already public property, but against unreasonable public identification of him in his present setting with the earlier incident.

Determination of this question is not, however, essential to disposition of the present motion. Assuming *arguendo* that at the time of the telecast plaintiff had regained a private status carrying with it legal protection from republication of the facts of his past life, the complaints, as supplemented by plaintiff's deposition and the various admissions, stipulations, and answers to interrogatories by the respective parties, do not state a valid cause of action. . . .

In the two jurisdictions which might be deemed the place of plaintiff's injury and therefore held to govern his right of action, are Virginia and the District of Columbia.

The Virginia Code, 1950 ed., Vol. 2, provides:

§ 8-650. Unauthorized use of the name or picture of any person. A person, firm, or corporation that knowingly uses for advertising purposes, or for the purposes of trade, the name, portrait, or picture of any person resident in the State, without having first obtained the written consent of such person, or if dead, of his surviving consort, or if none, his next of kin, or, if a minor, of his or her parent or guardian,

as well as that of such minor, shall be deemed guilty of a misdemeanor and be fined not less than fifty nor more than one thousand dollars. Any person whose name, portrait, or picture is used within this State for advertising purposes or for the purposes of trade, without such written consent first obtained or the surviving consort or next of kin, as the case may be, may maintain a suit in equity against the person, firm, or corporation so using such person's name, portrait, or picture to prevent and restrain the use thereof; and may also sue and recover damages for any injuries sustained by reason of such use. And if the defendant shall have knowingly used such person's name, portrait, or picture in such manner as is forbidden or declared to be unlawful by this chapter, the jury, in its discretion, may award exemplary damages. (Code 1919, § 5782.)

No reported Virginia cases interpreting this statute have been cited to the court, nor has the court found any. It is apparent from a reading of § 8-650 that the right of action accorded is limited. The statute is modeled on the New York law. . . .

Suffice it to say, the New York statute has been given a strict construction. Publication of "biographical narratives of a man's life when it is of legitimate public interest," and "travel stories, stories of distant places, tales of historic personages and events, the reproduction of items of past news, and surveys of social conditions" are generally considered beyond the purview of the statute. This principle has been extended to the newsreel, the radio, and television.

It is patent that the television program here involved does not fall within the language or purpose of § 8-650 of the Virginia Code.

Whether a right of action for invasion of privacy exists in the District of Columbia has not been authoritatively determined. . . . Judge Pine, . . . in *Elmhurst v. Shoreham Hotel*, D.C. D.C. 1945, 58 F. Supp. 484, held that the tort of invasion of the right of privacy was unknown at common law and therefore could not be recognized in the District of Columbia, by reason of § 49-301 of the District of Columbia Code, 1951 Ed., 31 Stat. 1189, which continued in effect in the District the common law, both civil and criminal, in force in Maryland in 1801, except insofar as it is inconsistent with or replaced by subsequent legislation of Congress. The Court of Appeals affirmed the *Elmhurst* decision . . . but that Court specifically left undecided whether an action for invasion of privacy can be maintained in the District of Columbia. . . .

Whether the right to protection of one's privacy be viewed as stemming from natural law, as a constitutional right, or as a right which was afforded protection under the common law, though not by name, § 49-301 of the District Code does not preclude recognition in the District of Columbia of a common-law action for invasion of privacy.

What are the elements of such a common law action? Invasion of privacy has been summarized in the exhaustive annotation appearing at 138 A.L.R. 22, at 25 (supplemented at 168 A.L.R. 446 and 14 A.L.R.2d 750) as:

The *unwarranted* appropriation or exploitation of one's personality, the publicising of one's private affairs with which the public has no legitimate concern, or the wrongful intrusion into one's private activities, in such manner as to outrage or cause mental suffering, shame, or humiliation to a person of ordinary sensibilities. (Emphasis supplied.)

Under this definition, which embodies the minimum requirements of the many cases there noted, the essential elements of an action for invasion of privacy would be: (1) private affairs in which the public has no legitimate concern; (2) publication of such affairs; (3) unwarranted publication, that is, absence of any waiver or privilege authorizing it; and (4) publication such as would cause mental suffering, shame, or humiliation to a person of ordinary sensibilities. As to the first element, the “private” affairs should be at least currently unknown to the public; and as to the second element, publication would necessarily include identification of the facts disclosed with the complainant. The third element, a mixed question of fact and law, and the fourth element, a fact question for the jury, need not be reached if either of the first two elements is not present.

On the undisputed facts disclosed by the various pleadings and admissions before the court on this motion, it is clear that the first two essential elements of a cause of action are lacking in the case at bar.

(1) The plaintiff’s affairs were not private and were known to the public. His case had been given considerable publicity from the time of his trial in 1932 until his conditional release from imprisonment in 1940. . . .

(2) The admitted facts show there was no publication by defendant of the program as the plaintiff’s prior history. Not only was there no identification of plaintiff by name in either the telecast or defendant’s advertisements thereof, but he was doubly insulated from identification by designation of the television character as “Dave Crouch” and his own trial as “Charles Harris.” Except to one already familiar with the facts or one who had stumbled on the reported court decision or the old newspaper items, there was nothing to link Charles Harris with any Charles Bernstein, much less plaintiff. To one who viewed the telecast not already aware of plaintiff’s past or Miss Strayer’s connection with him, the only link between Dave Crouch and Charles S. Bernstein of Front Royal, Virginia, and the District of Columbia was the alleged physical resemblance of the actor to the Charles Bernstein of *twenty years before*. This is too tenuous a thread on which to permit a jury to hang identification, with consequent liability for invasion of privacy.

Plaintiff argues there were three categories of people as to whom there was identification: first, those who knew about the incidents of plaintiff’s past life; second, those who remembered the newspaper articles twenty years before and were able to connect them with the broadcast; and third, those who did not know of Mr. Bernstein’s past life but, as the result of the telecast, learned about it “because they were told by other people.”

As to persons who already knew the facts of plaintiff’s life there was no invasion of plaintiff’s privacy by defendant. Although the telecast may have revived their memories, it revealed nothing they did not already know. The gist of an action for invasion of privacy is a wrongful disclosure *by the defendant*. The identification of plaintiff to viewers of the telecast was not by act of the defendant, but by use of their own thought processes. If these people were so thoughtless as to harass plaintiff with calls, as he contends, such harassment was the product of their own deduction and lack of tact and consideration for plaintiff. Persons who recalled the newspaper articles and connected them with plaintiff are indistinguishable from the first group, for the identification to them was through their own mental operations.

As to the third category, those who did not know of Mr. Bernstein’s past life but, as the result of the telecast, learned about it “because they were told by

other people,” counsel for plaintiff very frankly admitted, “We are right in the open spaces.” He cited in support of his position a number of cases holding that the author of a defamation is responsible for its repetition by another if the defamation is uttered or published under such circumstances as to time, place, and condition that a repetition or secondary publication is the natural and probable consequence of the original defamation, and for the damage resulting therefrom. The rule varies in different jurisdictions. . . .

But in defamation, there can, of course, be no repetition of a defamatory statement unless the statement is first made. Hence, none of the cited cases deal with an attempt to remedy the absence of proof of publication by defendant, an essential element, by proof of repetition of the statement by third persons. Similarly, in invasion of privacy, where defendant has published facts in such a way that there has been no disclosure to persons not already aware of them, proof of disclosure or identification by third persons to others who lacked prior knowledge cannot be used as a substitute for proof of original disclosure by defendant. . . .

(3) Plaintiff argues that privilege as to one publication or consent to disclosure for one purpose does not constitute privilege or waiver of privacy as to all publications, citing a number of cases, and therefore the fact that the public records were privileged or that plaintiff may have approved the newspaper campaign on his behalf from 1934 to 1940 and not objected to the magazine article of 1936 or 1937 or the radio program of 1948, did not authorize the telecast. Plaintiff further argues that prior wrongful publications cannot make a further wrongful publication legal.

Both general statements are correct. . . .

Privilege or waiver as to a prior disclosure is relevant, therefore, insofar as it relates to the issue whether there was a limited disclosure for a particular purpose or whether the facts became public property. The same is true of any prior disclosure which was not consented to and not privileged. Certain affairs of the individual are inherently private, and wrongful publication of them could not authorize subsequent publicity. In the final analysis, whether disclosed facts are to be held public property depends upon a weighing of all the factors in favor of the free circulation of information against the individual’s desire to avoid notoriety. . . . Plaintiff, having conceded that the story of his conviction and pardon were public property at the time they occurred, argues that since the matter had lain dormant from 1940 until 1952, a period of twelve years, it had become “stale news.” In view of the radio publication in 1948, plaintiff’s affairs had, on his own admission, been out of the public eye only since 1948 or for four years preceding the defendant’s telecast. Plaintiff’s counsel did not attempt to draw a line as to when matters of current interest become “stale news.” Although news value is one of the bases for the privilege to publish, this court prefers the broader test of “public or general interest,” advocated by Warren and Brandeis. . . . This court holds, as a matter of law, that a criminal proceeding widely publicized for a period of at least eight years and containing elements of decided popular appeal does not lose its general public interest in a period of four years or even twelve years; . . . hence, republication in a reasonable manner was privileged. . . .

The program of January 18, 1952, although sponsored commercially, was one of general interest. It did not single out plaintiff to expose him to public scorn, but was one of a series of television plays devoted to retelling in fictionalized form the stories of newspaper reporters who had done excellent work in promoting justice. . . . “The Big Story” program was of current public value in dem-

onstrating how an alert reporter, who has an interest in seeing the right prevail, may help an innocent man escape the unhappy consequences of a wrongful conviction, and perhaps might inspire some other reporter to greater efforts or some young person to embrace a newspaper career. There was a careful and honest attempt to conceal the identity of all persons save the reporter, and the facts of the case were sufficiently changed to avoid duplication of the actual proceeding. That the concealment of plaintiff's identity was accomplished is attested by plaintiff's own allegations showing that only those who knew the story recognized it. The convicted man was shown as an entirely sympathetic character, innocent, wrongfully accused, inadequately defended, convicted on flimsy evidence, and saved from a gross miscarriage of justice in the nick of time. The picture painted was more favorable than the facts of record. If plaintiff had wished to publicize his innocence to those who knew of his conviction but had never heard of his pardon, he could have chosen no more effective means than a popular nationwide television network program.

If anyone's sensibilities should have been wounded by the play, it was the judge, the detectives, and the trial counsel, whose parts were given such unsympathetic treatment as to be defamatory, had there been identification. The whole atmosphere of the trial, as portrayed in the telecast, was not such as to inspire viewers with confidence in the administration of justice in the District of Columbia. . . .

The court holds, as a matter of law, that the facts in this case present no actionable invasion of plaintiff's privacy by defendant. . . .

NOTES

1. Bernstein, of course, had never sought public notoriety. It had come to him unbidden. At the outset, this was also true of Nathan Leopold, who, with his friend Richard Loeb, was convicted in what was then characterized as the "trial of the century" (an appellation that has since been bestowed on several other trials.) However, notoriety did find Leopold, and—unlike Bernstein—he participated in the process. This made it extremely difficult for him to interfere with further attempts to tell his story. A thinly fictionalized work based upon the Loeb/Leopold case was found unobjectionable in *Leopold v. Levin*, 259 N.E.2d 250 (Ill. 1970). The plaintiff objected to the publication of the novel *Compulsion*, as well as the play and the film based on the novel. Although plaintiff's name was never used in the novel, play, or film, promotional materials and cover "blurbs" for the novel clearly linked it to the case, as did promotional materials for the film. Although the plaintiff conceded that nonfiction writings and/or documentary films would be constitutionally protected, he claimed that "knowingly fictionalized accounts" of his case and use of his name in promotional materials would violate his right of privacy. In denying Leopold's claim, the court observed that he had become and remained a public figure as the result of the sensational 1924 trial, and that public curiosity about Leopold's life had remained strong despite the passage of more than thirty years, in part due to Leopold's having granted press interviews and having published his own writings. The incidents related in the novel were derived in substantial part from matters on the public record, and "[t]he reference in the advertising material concerned the notorious crime to which he had pleaded guilty. His participation was a matter of public and, even, of historical record. That conduct was without benefit of privacy." Summary judgment for the defendants was affirmed.

2. In *Stephano v. News Group Publications, Inc.*, 64 N.Y.2d 174, 485 N.Y.S.2d 220 (1984), a model who posed for a magazine article objected to the inclusion of his photograph in a "Best Buys" page directing readers to a shop which sold the "bomber jacket"

the model wore when posing for the article. The Court of Appeals stated that §§ 50 and 51 were not intended to apply to “publications concerning newsworthy events or matters of public interest,” that shopping was a matter of public interest, and that “the picture of the jacket does not lose its newsworthiness simply because the defendant chose to employ a person to model it in a controlled or contrived setting.” (The Court of Appeals also made clear that there is no common law right of publicity in New York. See Sec. 3.4.1 below.)

3. The “newsworthiness” defense is extremely broad, as illustrated by *Messenger v. Gruner + Jahr*, 208 F.3d 122 (2d Cir. 2000), in which the Second Circuit, after referring questions to the New York Court of Appeals (see *Messenger v. Gruner + Jahr*, 94 N.Y.2d 436 [2000]), held that there was no violation of §§ 50 and 51 where a model posed for a series of photographs to appear in *Young and Modern (YM)*, a magazine for teenage girls, and *YM* used the photos to illustrate a “Love Crisis” column. The column began with a letter from a 14-year-old girl identified only as “Mortified,” who wrote that she had gotten drunk at a party and then had sex with her 18-year-old boyfriend and two of his friends. Above the column, in bold type, was a pull-out quotation stating, “I got trashed and had sex with three guys.” The photographs of plaintiff included one showing her hiding her face, with three young men gloating in the background. The captions were keyed to the columnist’s advice: “Wake up and face the facts: You made a pretty big mistake;” “Don’t try to hide—just ditch him and his buds;” and “Afraid you’re pregnant? See a doctor.”

4. Nor is a fictionalized account of a newsworthy event necessarily ineligible for First Amendment protection. *Wojtowicz v. Delacorte Press*, 43 N.Y.2d 858, 403 N.Y.S.2d 218 (2d Dept. 1978), involved the film *Dog Day Afternoon*, which was based upon a notorious Brooklyn bank robbery which originally was covered extensively in the newspapers and by a later feature in *Life* magazine. The opening scene of the movie announced the story as true and gave the date of the robbery and the fact that it had taken place in Brooklyn. However, while *Life* had mentioned the names of the wife and children of one of the robbers, the film did not use the real names of either the robbers or their relatives. The “wife,” mentioned in *Life*, was a minor character in the film, and the children were mentioned only incidentally. The court rejected the wife and children’s claims of invasion of privacy. The court held that no rights of privacy in New York existed apart from Civil Rights Law, 50 and 51, and since the plaintiffs’ names and likenesses were not used, no causes of action existed. (Plaintiffs’ claims for defamation were reserved for further consideration.)

5. Where individuals voluntarily enter the public arena, they must expect to endure the consequences of such participation. For example, where parties voluntarily appear on talk shows and make disclosures which might constitute invasions of privacy in other contexts, they cannot sue the producers of such shows for providing the environment within which other, related disclosures occur. *Howell v. Tribune Entertainment Co.*, 106 F.3d 215, 1997 U.S.App.LEXIS 2024 (7th Cir. 1997). In this instance, the Seventh Circuit upheld the dismissal of an action brought by a 16-year-old who had appeared on the Charles Perez Show with her stepmother. When the teenager accused her stepmother of adultery and abuse, the stepmother proceeded to read a police report which described the teenager as “violent and abusive,” among other things. Since the stepmother’s response would have been privileged, the producer of the program could assert the same privilege. Moreover, a different rule would have a chilling effect on the media.

3.4 PERSONAL RIGHTS: PUBLICITY

The legally enforceable right of publicity is a fairly recent development. To state that the contours of the right are still being refined is clearly an understatement. For example, some jurisdictions still subsume the right of publicity under the right of privacy (this is the case in New York where, under the decision in

Stephano v. News Group [discussed in Section 3.3.3], the Court of Appeals has declared that there is no common law right of publicity in New York); in others the right of publicity is wholly independent and is regarded as a property right (whether at common law, pursuant to statute, or, in some cases, both).

The right of publicity is defined as the right of each individual to control and profit from the commercial value of his or her own identity. The right as recognized protects the unauthorized commercial exploitation of a celebrity's name (actual or legal), likeness, as well as other aspects of identity such as photograph, portrait, caricature, and biographical facts and records of performance. As a practical matter, celebrities are the principal parties who have value in their names and likeness.

The rationale for the right of publicity is the protection of a celebrity's proprietary interest in the development of a marketable image. Arguably, publicity rights serve social interests by guarding against unjust enrichment and promote creativity by offering financial incentive to those choosing to cultivate a unique persona.

Some jurisdictions require that for a right of publicity to be descendible the celebrity must have exploited the rights during his or her lifetime, although most jurisdictions have no such prerequisites. Jurisdictions approach the right of publicity in a multitude of ways. As we see in Section 3.4.2, a number of states have adopted statutory provisions. However, state statutes do not necessarily cover all possible scenarios. In some situations, common law relief may be available for situations which are not covered by statute. This is the subject of Section 3.4.3.

One of the important issues in this area is whether rights of publicity survive the death of the celebrity concerned. This is discussed in Section 3.4.4.

As is the case with the right of privacy, defenses are available when subjects are public figures, or a matter is newsworthy, and, in addition, media are permitted to utilize materials which might in other contexts violate rights of publicity where the use is designed to promote circulation. This is discussed in Section 3.4.5.

Finally, as we see in Section 3.5, Congressional enactments such as Section 43a of the Lanham Act and other provisions of the Federal trademark act have provided a nationwide remedy which, in many instances, is easier to achieve than relief under state right of publicity statutes and common law doctrines. Here too, however, media are accorded considerable latitude.

NOTE

See generally J. T. McCarthy, *The Rights of Publicity and Privacy* (New York: Clark Boardman & Co. 1987).

3.4.1 At Common Law

Courts have struggled with distinctions between the two rights. In 1953 a breakthrough occurred in *Haelan Laboratories, Inc. v. Topps Chewing Gum*, 202 F.2d 866 (2d Cir. 1953), *cert. denied*, 346 U.S. 816 (1953), in which the court expressly recognized a right of publicity. The court held that "in addition to and independent of the right of privacy . . . a man has a right in the publicity value of his photograph, i.e., the right to grant the exclusive privilege of publishing his picture." The court rejected the contention that the only protectable right, if any,

in the publication of a celebrity's picture after it was validly assigned existed in a right of privacy. (The *Haelan* case involved the use of players' likenesses on baseball trading cards. It is noteworthy that the most recent baseball trading card case, *Cardtoons v. Major League Baseball Players*, 838 F. Supp. 1501 (N.D. Okl. 1993) reached an opposite result, because the cards involved parody characters such as "Cal Ripenwinkle" and the "Los Angeles Codgers" rather than literal depictions of the players.)

Other courts soon followed *Haelan*, including *Chaplin v. National Broadcasting Co.*, 15 F.R.D. 134 (S.D.N.Y. 1953) and continued over the next thirty years to include such notable decisions as *Martin Luther King, Jr. Center for Social Change v. American Heritage Products*, 296 S.E.2d 697 (Ga. 1982). In a right-of-publicity claim, a claimant must show the development "of a property interest with a monetary value in his or her name or face." See *Allen v. National Video, Inc.*, 610 F. Supp. 360, 367 (S.D.N.Y. 1985) (*infra*, Section 3.5.2). See also Nimmer, *The Right of Publicity, Law and Contemporary Problems*, vol. 19 (Chapel Hill, N.C.: School of Law, Duke University, 1954).

In the following case, the U.S. Supreme Court emphasizes the commercial nature of the right of publicity.

Zacchini v. Scripps-Howard Broadcasting Co., 433 U.S. 562 (1977)

JUSTICE WHITE delivered the opinion of the Court.

Petitioner, Hugo Zacchini, is an entertainer. He performs a "human cannonball" act in which he is shot from a cannon into a net some 200 feet away. Each performance occupies some 15 seconds. In August and September 1972, petitioner was engaged to perform his act on a regular basis at the Geauga County Fair in Burton, Ohio. He performed in a fenced area, surrounded by grandstands, at the fair grounds. Members of the public attending the fair were not charged a separate admission fee to observe his act. [Despite Zacchini's request that he not do so, a TV reporter taped Zacchini's entire act, which was then shown on the evening news, together with favorable commentary] Zacchini sued for damages for misappropriation of his "professional property." The act had been invented by his father, and had been performed only by the Zacchini family for fifty years. The Ohio appellate courts] rested petitioner's cause of action under state law on his "right to publicity value of his performance." 47 Ohio St. 2d 224, 351 N.E. 2d 454, 455 (1976). The opinion syllabus, to which we are to look for the rule of law used to decide the case, declared first that one may not use for his own benefit the name or likeness of another, whether or not the use or benefit is a commercial one, and second that respondent would be liable for the appropriation, over petitioner's objection and in the absence of license or privilege, of petitioner's right to the publicity value of his performance. *Ibid.* The court nevertheless gave judgment for respondent because, in the words of the syllabus:

A TV station has a privilege to report in its newscasts matters of legitimate public interest which would otherwise be protected by an individual's right of publicity, unless the actual intent of the TV station was to appropriate the benefit of the publicity of some nonprivileged private use, or unless the actual intent was to injure the individual. *Ibid.*

... [However,] we reverse the judgment of [the Ohio Supreme Court]. . . .

The Ohio Supreme Court held that respondent is constitutionally privileged to include in its newscasts matters of public interest that would otherwise be protected by the right of publicity, absent an intent to injure or to appropriate for some nonprivileged purpose. If under this standard respondent had merely reported that petitioner was performing at the fair and described or commented on his act, with or without showing his picture on television, we would have a very different case. But petitioner is not contending that his appearance at the fair and his performance could not be reported by the press as newsworthy items. His complaint is that respondent filmed his entire act and displayed that film on television for the public to see and enjoy . . .

The Ohio Supreme Court nevertheless held that the challenged invasion was privileged, saying that the press “must be accorded broad latitude in its choice of how much it presents of each story or incident, and of the emphasis to be given to such presentation. No fixed standard which would bar the press from reporting or depicting either an entire occurrence or an entire discrete part of a public performance can be formulated which would not unduly restrict the ‘breathing room’ in reporting which freedom of the press requires.” 47 Ohio St. 2d, at 235, 351 N.E. 2d, at 461. Under this view, respondent was thus constitutionally free to film and display petitioner’s entire act.

The Ohio Supreme Court relied heavily on *Time, Inc. v. Hill*, 385 U.S. 374 (1967), but that case does not mandate a media privilege to televise a performer’s entire act without his consent. Involved in *Time, Inc. v. Hill* was a claim under the New York “Right to Privacy” statute that *Life Magazine*, in the course of reviewing a new play, had connected the play with a long-past incident involving petitioner and his family and had falsely described their experience and conduct at that time. The complaint sought damages for humiliation and suffering flowing from these nondefamatory falsehoods that allegedly invaded Hill’s privacy. The Court held, however, that the opening of a new play linked to an actual incident was a matter of public interest and that Hill could not recover without showing that the *Life* report was knowingly false or was published with reckless disregard for the truth—the same rigorous standard that had been applied in *New York Times Co. v. Sullivan*, 376 U.S. 254 (1964).

Time, Inc. v. Hill . . . involved an entirely different tort from the “right of publicity” recognized by the Ohio Supreme Court. As the opinion reveals in *Time, Inc. v. Hill*, the Court was steeped in the literature of privacy law and was aware of the developing distinctions and nuances in this branch of the law . . . *Time, Inc. v. Hill* did not involve a performer, a person with a name having commercial value, or any claim to a “right of publicity.” This discrete kind of “appropriation” case was plainly identified in the literature cited by the Court and had been adjudicated in the reported cases.

The differences between these two torts are important. First, the State’s interests in providing a cause of action in each instance are different. “The interest protected” in permitting recovery for placing the plaintiff in a false light “is clearly that of reputation, with the same overtones of mental distress as in defamation.” Prosser, *supra*, 48 Calif. L. Rev., at 400. By contrast, the State’s interest in permitting a “right of publicity” is in protecting the proprietary interest of the individual in his act in part to encourage such entertainment. As we later note, the State’s interest is closely analogous to the goals of patent and copyright law, focusing on the right of the individual to reap the reward of his endeavors and

having little to do with protecting feelings or reputation. Second, the two torts differ in the degree to which they intrude on dissemination of information to the public. In “false light” cases the only way to protect the interests involved is to attempt to minimize publication of the damaging matter, while in “right of publicity” cases the only question is who gets to do the publishing. An entertainer such as petitioner usually has no objection to the widespread publication of his act as long as he gets the commercial benefit of such publication. Indeed, in the present case petitioner did not seek to enjoin the broadcast of his act; he simply sought compensation for the broadcast in the form of damages. . . .

The broadcast of a film of petitioner’s entire act poses a substantial threat to the economic value of that performance . . . [I]f the public can see the act free on television, it will be less willing to pay to see it at the fair. The effect of a public broadcast of the performance is similar to preventing petitioner from charging an admission fee. “The rationale for [protecting the right of publicity] is the straightforward one of preventing unjust enrichment by the theft of goodwill. No social purpose is served by having the defendant get free some aspect of the plaintiff that would have market value and for which he would normally pay.” Kalven, “Privacy in Tort Law—Were Warren and Brandeis Wrong?” 31 *Law & Contemp. Prob.* 326, 331 (1966). Moreover, the broadcast of petitioner’s entire performance, unlike the unauthorized use of another’s name for purposes of trade or the incidental use of a name or picture by the press, goes to the heart of petitioner’s ability to earn a living as an entertainer. Thus, in this case, Ohio has recognized what may be the strongest case for a “right of publicity”—involving, not the appropriation of an entertainer’s reputation to enhance the attractiveness of a commercial product, but the appropriation of the very activity by which the entertainer acquired his reputation in the first place.

Of course, Ohio’s decision to protect petitioner’s right of publicity here rests on more than a desire to compensate the performer for the time and effort invested in his act; the protection provides an economic incentive for him to make the investment required to produce a performance of interest to the public. This same consideration underlies the patent and copyright laws long enforced by this Court. . . . The laws perhaps regard the “reward to the owner [as] a secondary consideration,” *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948), but they were “intended definitely to grant valuable, enforceable right” in order to afford greater encouragement to the production of works of benefit to the public, *Washington Publishing Co. v. Pearson*, 306 U.S. 30, 36 (1939). The Constitution does not prevent Ohio from making a similar choice here in deciding to protect the entertainer’s incentive in order to encourage the production of this type of work. Cf. *Goldstein v. California*, 412 U.S. 546 (1973). . . .

There is no doubt that entertainment, as well as news, enjoys First Amendment protection. It is also true that entertainment itself can be important news. *Time, Inc. v. Hill*. But it is important to note that neither the public nor respondent will be deprived of the benefit of petitioner’s performance as long as his commercial stake in his act is appropriately recognized. Petitioner does not seek to enjoin the broadcast of his performance; he simply wants to be paid for it. . . .

We conclude that although the State of Ohio may as a matter of its own law privilege the press in the circumstances of this case, the First and Fourteenth Amendments do not require it to do so. *Reversed*.

JUSTICE POWELL, with whom JUSTICE BRENNAN and JUSTICE MARSHALL join, dissenting

Disclaiming any attempt to do more than decide the narrow case before us, the Court reverses the decision of the Supreme Court of Ohio based on repeated incantation of a single formula: “a performer’s entire act.” The holding today is summed up in one sentence:

Wherever the line in particular situations is to be drawn between media reports that are protected and those that are not, we are quite sure that the First and Fourteenth Amendments do not immunize the media when they broadcast a performer’s entire act without his consent.

I doubt that this formula provides a standard clear enough even for resolution of this case. In any event, I am not persuaded that the Court’s opinion is appropriately sensitive to the First Amendment values at stake, and I therefore dissent.

Although the Court would draw no distinction, . . . I do not view respondent’s action as comparable to unauthorized commercial broadcasts of sporting events, theatrical performances, and the like where the broadcaster keeps the profits. There is no suggestion here that respondent made any such use of the film. Instead, it simply reported on what petitioner concedes to be a newsworthy event, in a way hardly surprising for a television station—means of film coverage. The report was part of an ordinary daily news program, consuming a total of 15 seconds. It is a routine example of the press’ fulfilling the informing function so vital to our system.

The Court’s holding that the station’s ordinary news report may give rise to substantial liability has disturbing implications, for the decision could lead to a degree of media self-censorship. Cf. *Smith v. California*, 361 U.S. 147, 150–154 (1959). Hereafter, whenever a television news editor is unsure whether certain film footage received from a camera crew might be held to portray an “entire act,” he may decline coverage—even of clearly newsworthy events—or confine the broadcast to watered-down verbal reporting, perhaps with an occasional still picture. The public is then the loser. This is hardly the kind of news reportage that the First Amendment is meant to foster. . . .

In my view the First Amendment commands a different analytical starting point from the one selected by the Court. Rather than begin with a quantitative analysis of the performer’s behavior—is this or is this not his entire act?—we should direct initial attention to the actions of the news media: what use did the station make of the film footage? When a film is used, as here, for a routine portion of a regular news program, I would hold that the First Amendment protects the station from a “right of publicity” or “appropriation” suit, absent a strong showing by the plaintiff that the news broadcast was a subterfuge or cover for private or commercial exploitation. . . . Since the film clip here was undeniably treated as news and since there is no claim that the use was subterfuge, respondent’s actions were constitutionally privileged. I would affirm.

3.4.2 Statutory Recognition

Well prior to the decisions discussed in the preceding section, the California courts had flirted with notions of the right to publicity in such well-known cases as *Lugosi v. Universal Pictures*, 603 P.2d 425 (1979), and *Guglielmi v. Spelling-Goldberg*, 603 P.2d 860 (1979). The cases created confusion as to whether in fact California law recognized a right of publicity separate from the right of privacy.

The confusion has been partially resolved through legislative intervention in the enactment §3344 of the California Civil Code (and its post-mortem counterpart, §990, now amended and renumbered as §3344.1 (and discussed in Section 3.4.3.)

3344. [Use of Name or Photograph Without Consent for Advertising]

(a) Any person who knowingly uses another's: name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling or soliciting purchases of products, merchandise, goods or services, without such person's prior consent, or, in the case of a minor, the prior consent of his parent or legal guardian, shall be liable for any damages sustained by the person or persons injured as a result thereof. In addition, in any action brought under this section, the person who violated the section shall be liable to the injured party or parties in an amount equal to the greater of seven hundred fifty dollars (\$750) *or the actual damages suffered by him or her as a result of the unauthorized use, and any profits from the unauthorized use that are attributable to the use and are not taken into account in computing the actual damages.* In establishing such profits, the injured party or parties are required to present proof only of the gross revenue attributable to such use, and the person who violated this section is required to prove his or her deductible expenses. Punitive damages may also be awarded to the injured party or parties. *The prevailing party in any action under this section shall also be entitled to attorney's fees and costs.*

(b) As used in this section, "photograph" means any photograph or photographic reproduction, still or moving, or any videotape or live television transmission, of any person, such that the person is readily identifiable.

(1) A person shall be deemed to be readily identifiable from a photograph when one who views the photograph with the naked eye can reasonably determine that the person depicted in the photograph is the same person who is complaining of its unauthorized use.

(2) If the photograph includes more than one person so identifiable, then the person or persons complaining of the use shall be represented as individuals rather than solely as members of a definable group represented in the photograph. A definable group includes, but is not limited to, the following examples: a crowd at any sporting event, a crowd in any street or public building, the audience at any theatrical or stage production, a glee club, or a baseball team.

(3) A person or persons shall be considered to not be represented as members of a definable group if they are represented in the photograph solely as a result of being present at the time the photograph was taken and have not been singled out as individuals in any manner.

(c) Where a photograph or likeness of an employee of the person using the photograph or likeness appearing in the advertisement or other publication prepared by or in behalf of the user is only incidental, and not essential, to the purpose of the publication in which it appears, there shall arise a rebuttable presumption affecting the burden of producing evidence that the failure to obtain the consent of the employee was not a knowing use of the employee's photograph or likeness.

(d) For purposes of this section, a use of a name, voice, signature, photograph, or likeness in connection with any news, public affairs, or sports broadcast or account, or any political campaign, shall not constitute a use for which consent is required under subdivision (a).

(e) The use of a name, voice, signature, photograph, or likeness in a commercial medium shall not constitute a use for which consent is required under subdivision (a) solely because the material containing such use is commercially sponsored or contains paid advertising. Rather it shall be a question of fact whether or not the use of the person's name, voice, signature, photograph, or likeness was so directly

connected with the commercial sponsorship or with the paid advertising as to constitute a use for which consent is required under subdivision (a).

(f) Nothing in this section shall apply to the owners or employees of any medium used for advertising, including, but not limited to, newspapers, magazines, radio and television networks and stations, cable television systems, billboards, and transit ads, by whom any advertisement or solicitation in violation of this section is published or disseminated, unless it is established that such owners or employees had knowledge of the unauthorized use of the person's name, voice, signature, photograph, or likeness as prohibited by this section.

(g) The remedies provided for in this section are cumulative and shall be in addition to any others provided for by law.

NOTE

A "likeness" need not be literal for purposes of § 3344. *Newcombe v. Adolf Coors Co.*, 157 F.3d 686, 1998 U.S. App. LEXIS 23308 (9th Cir. 1998) involved an advertisement for Killian's Irish Red Beer which included a drawing of a baseball pitcher that Newcombe (the only man ever to win all three of the Cy Young, Most Valuable Player, and Rookie of the Year Awards) felt was sufficiently similar to a picture of himself as to constitute a "likeness." The defendants conceded that the drawing was based on an earlier picture of Newcombe. The drawing closely resembled Newcombe's characteristic stance on the pitching mound. The only major differences were a change of uniform number (from 39 to 36) and in the bill of the cap (which was a different color from the rest of the cap.) The court concluded that there was a triable issue of material fact as to the existence of a "likeness." (The court also permitted Newcombe to pursue his claim of common law misappropriation. See Sec. 3.4.2.)

3.4.2.1 Other Statutory Enactments on Right of Publicity

Currently, at least thirteen states have statutes that protect aspects of the right of publicity, including Tennessee, Kentucky, Florida, and Indiana. The Indiana statute may be the most sweeping, but all four of the statutes, reproduced below, should be studied both individually and comparatively. In an examination of the provisions of the four statutes, the only conclusion to be reached is that there is no uniform approach to the right of publicity. Of particular interest is the varied treatment of descendibility: who owns the right, and for how long.

Tenn. Code Ann. Ch. 945, §§ 47–25–1101 and 1108 (1984)

SECTION 1. This act shall be known and may be cited as "The Personal Rights Protection Act of 1984."

SECTION 2. As used in this act, unless the context otherwise requires:

(1) "Definable group" means an assemblage of individuals existing or brought together with or without interrelation, orderly form or arrangement, including but not limited to, a crowd at any sporting event, a crowd in any street or public building, the audience at any theatrical or stage production, a glee club, or a baseball team.

(2) "Individual" means human being, living or dead.

(3) "Likeness" means the use of an image of an individual for commercial purposes.

(4) "Person" means any firm, association, partnership, corporation, joint stock company, syndicate, receiver, common law trust, conservator, statutory trust or any other concern by whatever name known or however organized, formed or created, and includes not-for-profit corporations, associations, educational and religious institutions, political parties, community, civic or other organizations.

(5) “Photograph” means any photograph or photographic reproduction, still or moving, or any videotape or live television transmission, of any individual, so that the individual is readily identifiable.

SECTION 3. (a) Every individual has a property right in the use of his name, photograph or likeness in any medium in any manner.

(b) The individual rights provided for in subsection (a) shall constitute property rights and shall be freely assignable and licensable, and shall not expire upon the death of the individual so protected, whether or not such rights were commercially exploited by the individual during the individual’s lifetime, but shall be descendible to the executors, assigns, heirs, or devisees of the individual so protected by this act.

SECTION 4. (a) The rights provided for in this act shall be deemed exclusive to the individual, subject to the assignment or licensing of such trademarks as provided in Section 3, during such individual’s lifetime and to the executors, heirs, assigns or devisees for a period of ten (10) years after the death of the individual.

(b) Commercial exploitation of the property right by an executor, assignee, heir, or devisee if the individual is deceased shall maintain the right as his exclusive property until such right is terminated as provided in this subsection.

The exclusive right to commercial exploitation of the property rights is terminated by proof of the non-use of the name, likeness, or image of any individual for commercial purposes by an executor, assignee, heir or devisee to such use for a period of two (2) years subsequent to the initial ten (10) year period following the individual’s death.

SECTION 5. (a) Any person who knowingly uses or infringes upon the use of another individual’s name, photograph, or likeness in any medium, in any manner directed to any person other than such individual, as an item of commerce for purposes of advertising products, merchandise, goods or services, or for purposes of fund raising, solicitation of donations, purchases of products, merchandise, goods or services, without such individual’s prior consent, or, in the case of a minor, the prior consent of his parent or legal guardian, or in the case of a deceased individual, the consent of the executor or administrator, heirs or devisees of such deceased individual, shall be liable to a civil action.

(b) It shall be no defense to the unauthorized use defined in subsection (a) that the photograph includes more than one (1) individual so identifiable; provided that the individual or individuals complaining of the use shall be represented as individuals per se rather than solely as members of a definable group represented in the photograph.

SECTION 6. (a) The chancery and circuit court having jurisdiction for any action arising pursuant to this act may grant injunctions on such terms as it may deem reasonable to prevent or restrain the unauthorized use of an individual’s name, photograph or likeness.

(b) At any time while an action under this act is pending, the court may order the impounding, on such terms as it may deem reasonable, of all materials or any part thereof claimed to have been made or used in violation of the individual’s rights, and such court may enjoin the use of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such materials may be reproduced.

(c) As part of a final judgment or decree, the court may order the destruction or other reasonable disposition of all materials found to have been made or used in violation of the individual’s rights, and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such materials may be reproduced.

(d) An individual is entitled to recover the actual damages suffered as a result of the knowing use or infringement of such individual’s rights and any profits that are

attributable to such use or infringement which are not taken into account in computing the actual damages. Profit or lack thereof by the unauthorized use or infringement of an individual's rights shall not be a criteria of determining liability.

(e) The remedies provided for in this section are cumulative and shall be in addition to any others provided for by law.

SECTION 7. (a) It shall be deemed a fair use and no violation of an individual's rights shall be found, for purposes of this act, if the use of a name, photograph or likeness is in connection with any news, public affairs, or sports broadcast or account.

(b) The use of a name, photograph or likeness in a commercial medium shall not constitute a use for purposes of advertising or solicitation solely because the material containing such use is commercially sponsored or contains paid advertising. Rather it shall be a question of fact whether or not the use of the complainant individual's name, photograph or likeness was so directly connected with the commercial sponsorship or with the paid advertising as to constitute a use for purposes of advertising or solicitation.

(c) Nothing in this section shall apply to the owners or employees of any medium used for advertising, including, but not limited to, newspapers, magazines, radio and television stations, billboards, and transit ads, who have published or disseminated any advertisement or solicitation in violation of this act unless it is established that such owners or employees had knowledge of the unauthorized use of the individual's name, photograph, or likeness as prohibited by this section.

SECTION 10. This act shall take effect on becoming a law, the public welfare requiring it.

Ky. Rev. Stat., Ch. 391 (1984)

AN ACT relating to commercial rights to use the names and likenesses of public figures.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

SECTION 1. A NEW SECTION OF KRS CHAPTER 391 IS CREATED TO READ AS FOLLOWS:

(1) The general assembly recognizes that a person has property rights in his name and likeness which are entitled to protection from commercial exploitation. The general assembly further recognizes that although the traditional right of privacy terminates upon death of the person asserting it, the right of publicity, which is a right of protection from appropriation of some element of an individual's personality for commercial exploitation, does not terminate upon death.

(2) The name or likeness of a person who is a public figure shall not be used for commercial profit for a period of fifty (50) years from the date of his death without the written consent of the executor or administrator of his estate.

Approved April 6, 1984

Fla. Stat. Ann. Sec. 540-08 (West 1972)

Be It Enacted by the Legislature of the State of Florida:

Section 1. Sections 540.08, 540.09, and 540.10 are added to chapter 540, Florida Statutes, to read:

540.08 *Unauthorized publication of name or likeness.*—(1) No person shall publish, print, display or otherwise publicly use for purposes of trade or for any commercial or advertising purpose the name, portrait, photograph or other likeness of any natural person without the express written or oral consent to such use given by:

(a) Such person; or

(b) Any other person, firm or corporation authorized in writing by such person to license the commercial use of his name or likeness; or

(c) If such person is deceased, any person, firm or corporation authorized in writing to license the commercial use of his name or likeness, or if no person, firm or corporation is so authorized, then by any one from among a class composed of his surviving spouse and surviving children.

(2) In the event the consent required in subsection (1) is not obtained, the person whose name, portrait, photograph, or other likeness is so used, or any person, firm or corporation authorized by such person in writing to license the commercial use of his name or likeness, or, if the person whose likeness is used is deceased, any person, firm or corporation having the right to give such consents, as provided hereinabove, may bring an action to enjoin such unauthorized publication, printing, display or other public use, and to recover damages for any loss or injury sustained by reason thereof, including an amount which would have been a reasonable royalty, and punitive or exemplary damages.

(3) The provisions of this section shall not apply to:

(a) The publication, printing, display or use of the name or likeness of any person in any newspaper, magazine, book, news broadcast or telecast or other news medium or publication as part of any bona fide news report or presentation having a current and legitimate public interest and where such name or likeness is not used for advertising purposes;

(b) The use of such name, portrait, photograph or other likeness in connection with the resale or other distribution of literary, musical or artistic productions or other articles of merchandise or property where such person has consented to the use of his name, portrait, photograph or likeness on or in connection with the initial sale or distribution thereof; or

(c) Any photograph of a person solely as a member of the public and where such person is not named or otherwise identified in or in connection with the use of such photograph.

(4) No action shall be brought under this section by reason of any publication, printing, display or other public use of the name or likeness of a person occurring after the expiration of forty (40) years from and after the death of such person.

(5) As used in this section, a person's "surviving spouse" is the person's surviving spouse under the law of his domicile at the time of his death, whether or not the spouse has later remarried; and a person's "children" are his immediate offspring and any children legally adopted by him. Any consent provided for in subsection (1) shall be given on behalf of a minor by the guardian of his person or by either parent.

(6) The remedies provided for in this section shall be in addition to and not in limitation of the remedies and rights of any person under the common law against the invasion of his privacy.

540.09 *Unauthorized publication of photographs or pictures of areas to which admission is charged.*—

(1) Any person who shall sell any photograph, drawing or other visual representation of any area, building or structure, the entry or admittance to which is subject to an admission charge or fee, or of any real or personal property located therein, or who shall use any such photograph, drawing or other visual representation in connection with the sale or advertising of any other product, property or service, without the express written or oral consent of the owner or operator of the area, building, structure, or other property so depicted, shall be liable to such owner or operator for any loss, damage or injury sustained by reason thereof, including an amount which would have been a reasonable royalty, and for punitive or exemplary damages, and such unauthorized sale or use may be enjoined.

(2) The provisions of this section shall not apply to:

(a) Photographs, drawings or other visual representations in any newspaper, magazine, book, news broadcast or telecast or other news medium or publication as part of any bona fide news report or presentation having a current and legitimate public interest and where such photographs, drawings or other visual representations are not used for advertising purposes; or

(b) Photographs, drawings or other visual representations in which the depiction of such property is incidental to the principal subject or subjects thereof and not calculated or likely to lead the viewer to associate such property with the sale, offering for sale or advertising of any property, product or service.

(3) The remedies provided for in this section shall be in addition to and not in limitation of the remedies and rights of any person under the common law against the unauthorized sale or use for purposes of trade or advertising of photographs, drawings or other visual representations of his property.

540.10 *Exemption from liability of news media.*—No relief may be obtained under sections 540.08 or 540.09 Florida Statutes, against any broadcaster, publisher or distributor broadcasting, publishing or distributing paid advertising matter by radio or television or in a newspaper, magazine or similar periodical without knowledge or notice that any consent required by sections 540.08 or 540.09 Florida Statutes, in connection with such advertising matter has not been obtained, except an injunction against the presentation of such advertising matter in future broadcasts or in future issues of such newspaper, magazine or similar periodical.

**Indiana Statutes, Title 32, Art. 13, Ch. 1. Rights of Publicity §32–13–1-1.
Applicability**

(a) This chapter applies to an act or event that occurs within Indiana, regardless of a personality's domicile, residence, or citizenship.

(b) This chapter does not affect rights and privileges recognized under any other law that apply to a news reporting or an entertainment medium.

(c) This chapter does not apply to the following:

(1) The use of a personality's name, voice, signature, photograph, image, likeness, distinctive appearance, gestures, or mannerisms in any of the following:

(A) Literary works, theatrical works, musical compositions, film, radio, or television programs.

(B) Material that has political or newsworthy value.

(C) Original works of fine art.

(D) Promotional material or an advertisement for a news reporting or an entertainment medium that:

(i) Uses all or part of a past edition of the medium's own broadcast or publication; and

(ii) Does not convey or reasonably suggest that a personality endorses the news reporting or entertainment medium.

(E) An advertisement or commercial announcement for a use described under this subdivision.

(2) The use of a personality's name to truthfully identify the personality as:

(A) The author of a written work; or

(B) A performer of a recorded performance;

under circumstances in which the written work or recorded performance is otherwise rightfully reproduced, exhibited, or broadcast.

(3) The use of a personality's:

(A) Name;

(B) Voice;

(C) Signature;

(D) Photograph;

- (E) Image;
- (F) Likeness;
- (G) Distinctive appearance;
- (H) Gestures; or
- (I) Mannerisms;

in connection with the broadcast or reporting of an event or a topic of general or public interest.

§ 32–13–1-2. “Commercial purpose” defined

As used in this chapter, “commercial purpose” means the use of an aspect of a personality’s right of publicity as follows:

- (1) On or in connection with a product, merchandise, goods, services, or commercial activities.
- (2) For advertising or soliciting purchases of products, merchandise, goods, services, or for promoting commercial activities.
- (3) For the purpose of fundraising.

§ 32–13–1-3. “Name” defined

As used in this chapter, “name” means the actual or assumed name of a living or deceased natural person that is intended to identify the person.

§ 32–13–1-4. “News reporting or an entertainment medium” defined

As used in this chapter, “news reporting or an entertainment medium” means a medium that publishes, broadcasts, or disseminates advertising in the normal course of its business, including the following:

- (1) Newspapers.
- (2) Magazines.
- (3) Radio and television networks and stations.
- (4) Cable television systems.

§ 32–13–1-5. “Person” defined

As used in this chapter, “person” means a natural person, a partnership, a firm, a corporation, or an unincorporated association. . . .

§ 32–13–1-8. Use of personality’s right of publicity

A person may not use an aspect of a personality’s right of publicity for a commercial purpose during the personality’s lifetime or for one hundred (100) years after the date of the personality’s death without having obtained previous written consent from a person specified in section 17 [IC 32–13–1-17] of this chapter.

§ 32–13–1-9. Engaging in prohibited conduct

A person who:

- (1) Engages in conduct within Indiana that is prohibited under section 8 [IC 32–13–1-8] of this chapter;
- (2) Creates or causes to be created within Indiana goods, merchandise, or other materials prohibited under section 8 of this chapter;
- (3) Transports or causes to be transported into Indiana goods, merchandise, or other materials created or used in violation of section 8 of this chapter; or
- (4) Knowingly causes advertising or promotional material created or used in violation of section 8 of this chapter to be published, distributed, exhibited, or disseminated within Indiana;

submits to the jurisdiction of Indiana courts.

§ 32–13–1-10. Violations—Penalties

A person who violates section 8 [IC 32–13–1-8] of this chapter may be liable for any of the following:

- (1) Damages in the amount of:
 - (A) One thousand dollars (\$1,000); or
 - (B) Actual damages, including profits derived from the unauthorized use; whichever is greater.

(2) Treble or punitive damages, as the injured party may elect, if the violation under section 8 of this chapter is knowing, willful, or intentional.

§ 32–13–1-11. Establishment of profits

In establishing the profits under section 10(1)(B) [IC 32–13–1-10(1)(B)] of this chapter:

(1) The plaintiff is required to prove the gross revenue attributable to the unauthorized use; and

(2) The defendant is required to prove properly deductible expenses.

§ 32–13–1-12. Attorney’s fees—Costs—Injunctive relief

In addition to any damages awarded under section 10 [IC 32–13–1-10] of this chapter, the court:

(1) Shall award to the prevailing party reasonable attorney’s fees, costs, and expenses relating to an action under this chapter; and

(2) May order temporary or permanent injunctive relief, except as provided by section 13 [IC 32–13–1-13] of this chapter.

§ 32–13–1-13. When injunctive relief not enforceable

Injunctive relief is not enforceable against a news reporting or an entertainment medium that has:

(1) Contracted with a person for the publication or broadcast of an advertisement; and

(2) Incorporated the advertisement in tangible form into material that has been prepared for broadcast or publication.

§ 32–13–1-14. Impoundment of items

(a) This section does not apply to a news reporting or an entertainment medium.

(b) During any period that an action under this chapter is pending, a court may order the impoundment of:

(1) Goods, merchandise, or other materials claimed to have been made or used in violation of section 8 [IC 32–13–1-8] of this chapter; and

(2) Plates, molds, matrices, masters, tapes, negatives, or other items from which goods, merchandise, or other materials described under subdivision (1) may be manufactured or reproduced.

(c) The court may order impoundment under subsection (b) upon terms that the court considers reasonable.

§ 32–13–1-15. Destruction of items

(a) This section does not apply to a news reporting or an entertainment medium.

(b) As part of a final judgment or decree, a court may order the destruction or other reasonable disposition of items described in section 14(b) [IC 32–13–1-14(b)] of this chapter.

§ 32–13–1-16. Property rights

The rights recognized under this chapter are property rights, freely transferable and descendible, in whole or in part, by the following:

(1) Contract.

(2) License.

(3) Gift.

(4) Trust.

(5) Testamentary document.

(6) Operation of the laws of intestate succession applicable to the state administering the estate and property of an intestate deceased personality, regardless of whether the state recognizes the property rights set forth under this chapter.

§ 32–13–1-17. Enforcement of rights and remedies

(a) The written consent required by section 8 [IC 32–13–1-8] of this chapter and the rights and remedies set forth in this chapter may be exercised and enforced by:

(1) A personality; or

(2) A person to whom the recognized rights have been transferred under section 16 [IC 32–13–1–16] of this chapter.

(b) If the transfer described under subsection (a) has not occurred, a person or personality to whom the rights recognized are transferred under section 18 [IC 32–13–1–18] of this chapter may exercise and enforce the rights and remedies under this chapter.

§ 32–13–1–18. Enforcement of rights and remedies after death of personality

(a) Subject to sections 16 and 17 [IC 32–13–1–16 and IC 32–13–1–17] of this chapter, after the death of an intestate personality, the rights and remedies of this chapter may be exercised and enforced by a person who possesses a total of not less than one-half ([bu412]) interest of the rights.

(b) A person described in subsection (a) shall account to any other person in whom the rights have vested to the extent that the other person's interest may appear.

§ 32–13–1–19. Termination of rights of deceased personality

If:

(1) A deceased personality has not transferred the deceased person's rights under this chapter by:

- (A) Contract;
- (B) License;
- (C) Gift;
- (D) Trust; or
- (E) Testamentary document; and

(2) There are no surviving persons as described in section 17 [IC 32–13–1–17] of this chapter;

The rights set forth in this chapter terminate.

§ 32–13–1–20. Rights and remedies supplemental

The rights and remedies provided for in this chapter are supplemental to any other rights and remedies provided by law.

NOTE

See S. R. Gordon and L. A. Honig, "Transfer Issues in Publicity, Privacy Rights," *Ent. L. & Finance* (May 1988).

3.4.3 Additional Recognition of the Right at Common Law

Although many states have enacted statutory rights of publicity, and although statutes such as Indiana's extend beyond name and likeness to aspects of identity, many state statutes apply only to name, likeness, and similar aspects of individual identity. In the cases that follow, none of the plaintiffs could fit themselves under an available statutory umbrella; therefore, they proceeded at common law. In *Motschenbacher*, the issue involved the plaintiff's distinctive race car (and the court nominally cast its decision in terms of privacy, although it is clear that the opinion was really based on right of publicity considerations), the *Carson* case involved a phrase associated with a talk show host, in the *Midler* and *Waits* cases, the issue was vocal style, while the *White* case involved the overall nature of the plaintiff's involvement in a game show.

Motschenbacher v. R. J. Reynolds Tobacco Co., 498 F.2d 821 (9th Cir. 1974)

KOELSCH, J.

[Motschenbacher was an internationally famous professional race car driver. His car was always red, with a distinctive white pin stripe and the number "11" on

a white oval background. Defendant created and disseminated a commercial which included an altered photograph of plaintiff's car and other race cars. Plaintiff's face was not visible, and defendant had changed "11" to "71" and added a "spoiler" to plaintiff's car along with the name "Winston." The district court characterized plaintiff's action as sounding in privacy, and granted summary judgment for defendant, holding that plaintiff was unrecognizable in the commercial, and no one could infer an endorsement of defendant's product by plaintiff. The Ninth Circuit reversed.]

In California, as in the vast majority of jurisdiction, the invasion of an individual's right of privacy is an actionable tort.

California courts have observed that "[t]he gist of the cause of action . . . is not injury to the character or reputation, but a direct wrong of a personal character resulting in injury to feelings without regard to any effect which the publication may have on the property, business, pecuniary interest, or the standing of the individual in the community." . . .

It is true that the injury suffered from an appropriation of the attributes of one's identity may be "mental and subjective"—in the nature of humiliation, embarrassment and outrage . . . However, where the identity appropriated has a commercial value, the injury may be largely, or even wholly of an economic or material nature. Such is the nature of the injury alleged by plaintiff . . .

We turn now to the issue of "identifiability." Clearly, if the district court correctly determined as a matter of law that plaintiff is not identifiable in the commercial, then in no sense has plaintiff's identity been misappropriated nor his interest violated.

[A]lthough the "likeness" of the plaintiff is itself unrecognizable . . . [the lower court] wholly fails to attribute proper significance to the distinctive decoration appearing on [plaintiff's] car . . . [which] were not only peculiar to the plaintiff's cars but . . . caused some persons to think the car in question was plaintiff's and to infer that the person driving the car was the plaintiff.

Defendant's reliance on *Branson v. Fawcett Publications, Inc.*, 124 F. Supp. 429 (E.D. Ill. 1954), is misplaced. In *Branson*, a part-time racing driver brought suit for invasion of privacy when a photograph of his overturned racing car was printed in a magazine without his consent. In ruling that "the photograph . . . does not identify the plaintiff to the public or any member thereof" . . . the court said

[T]he automobile is pointed upward in the air and the picture shows primarily the bottom of the racer. The backdrop of the picture is not distinguishable. No likeness, face, image, form or silhouette of the plaintiff or of any person is shown. From all that appears from the picture itself, there is no one in the car. Moreover, no identifying marks or numbers on the car appear . . . Plaintiff does not even assert that the car he was driving was the same color as that which appears in the colored reproduction. . . . 124 F. Supp. at 432.

But in this case, the car under consideration clearly has a driver and displays several uniquely distinguishing features.

The judgment is reversed and the cause is remanded for further proceedings.

NOTES

1. In *Carson v. Here's Johnny Portable Toilets, Inc.*, 698 F.2d 831 (6th Cir. 1983), Carson sued for unfair competition and for violation of his rights of privacy and publicity under the laws of Michigan. Carson, longtime host of the “Tonight” show, was always introduced with the phrase “He-e-e-re’s Johnny!” Carson had licensed the use of his name for men’s clothing and toiletries, as well as restaurants. Defendant’s “Here’s Johnny” portable toilets were subtitled “The World’s Foremost Comedian,” and defendant’s president conceded that he was aware of the identification of “Here’s Johnny” with Carson and selected the phrase for that reason.

There was no evidence that Carson created or owned the introductory phrase. There was no evidence of public confusion, i.e., that anyone thought Carson distributed or endorsed the toilets. Nevertheless, the Sixth Circuit found that defendant had violated Carson’s right of publicity (although it did not believe—but did not have to decide—that his right of privacy had been violated, and rejected his claim under Section 43a of the Lanham Act, which is discussed in Section 3.5, below.) “[T]he right of publicity . . . is that a celebrity has a protected pecuniary interest in the commercial exploitation of his identity. If the celebrity’s identity is commercially exploited, there has been an invasion of his right whether or not his ‘name or likeness’ is used. Carson’s identity may be exploited even if his name, John W. Carson, or his picture is not used.” The court went on to cite *Mot-schenbacher and Hirsch v. S. C. Johnson & Son, Inc.*, 90 Wis. 2d 379, 280 N.W.2d 129 (1979) (use of name “Crazylegs” on women’s shaving gel violated publicity rights of famous football player known by that nickname). “It is not fatal to appellant’s claim,” the court concluded, “that appellee did not use his ‘name.’ Indeed, there would have been no violation of his right of publicity even if appellee had used his name, such as ‘J. William Carson Portable Toilet’ or the ‘J. W. Carson Portable Toilet’ [because] the appellee would not have appropriated Carson’s identity as a celebrity.”

The dissent would have limited the right of publicity to “an individual’s name, likeness, achievements, identifying characteristics or actual performances.” Judge Kennedy said that the majority holding “permits a popular entertainer or public figure, by associating himself or herself with a common phrase, to remove those words from the public domain. The phrase ‘Here’s Johnny’ is merely associated with [Carson and] are spoken by an announcer . . . The first name is so common, in light of the millions of persons named John, Johnny or Jonathan that no doubt inhabit this world, that alone, it is meaningless or ambiguous at best in identifying Johnny Carson, the celebrity. In addition, the phrase . . . was certainly selected for its value as a double entendre. . . . The value of the phrase to appellee’s product is in the risqué meaning of ‘john’ as a toilet or bathroom. For this reason, too, this is not a name case. . . . I do not consider it relevant that appellee intentionally chose to [utilize] a phrase that is merely associated with Johnny Carson.” Judge Kennedy set forth a three-part rationale for the right of publicity: (1) vindication of the economic interests of celebrities in profiting from their fame; (2) providing financial incentives to creativity, (3) prevention of unjust enrichment and deceptive trade practices. “None of the above-mentioned policy arguments supports the extension of the right of publicity to phrases or things which are merely associated with an individual.” In this case, “[t]he phrase is not part of an identity that [Carson] created. . . . Its association with him is derived, in large part, by the context in which it is said [and because] appellee’s use is] outside of the context in which it is associated with Johnny Carson, [it] does little to rob Johnny Carson of something which is unique to him or a product of his own efforts.”

2. Although Carson had sued specifically with reference to Michigan law, the court subsequently made the injunction nationwide in scope, even though it was not clear that all other states would recognize a right of publicity under the circumstances. However, the court did say that the defendant could seek modification if it felt that use of the phrase would be legal in other jurisdictions. See *Carson v. Here’s Johnny Portable Toilets, Inc.*, 810 F.2d 104 (6th Cir. 1987).

Midler v. Ford Motor Company, 849 F.2d 460 (9th Cir. 1988), cert. denied, 112 S.Ct. U.S. 1513 (1990)

NOONAN, CIRCUIT JUDGE

[In 1985, Ford and its ad agency ran a series of commercials for its cars, dubbed internally “The Yuppie Campaign,” attempting to capitalize on yuppies’ nostalgia for their college years. In some cases, original artists recreated their old hits. In other cases, “soundalikes” were used. Midler, a platinum-selling Grammy winner and Academy Award nominee, expressly declined to participate. Ford then utilized one of Midler’s former backup singers as a “soundalike” who sang Midler’s hit “Do You Want To Dance,” closely imitating Midler’s voice and style as directed by the ad agency. Neither Midler’s name nor likeness were used in or in connection with the commercial.]

The district court described the defendants’ conduct as that “of the average thief.” They decided, “If we can’t buy it, we’ll take it.” The court nonetheless believed there was no legal principle preventing imitation of Midler’s voice and so gave summary judgment for the defendants. Midler appeals.

The First Amendment protects much of what the media do in the reproduction of likenesses or sounds. A primary value is freedom of speech and press. *Time, Inc. v. Hill*, 385 U.S. 374, 388, 87 S.Ct. 534, 542, 17 L.Ed.2d 456 (1967). The purpose of the media’s use of a person’s identity is central. If the purpose is “informative or cultural” the use is immune; “if it serves no such function but merely exploits the individual portrayed, immunity will not be granted.” Felcher and Rubin, “Privacy, Publicity and the Portrayal of Real People by the Media,” 88 *Yale L.J.* 1577, 1596 (1979). Moreover, federal copyright law preempts much of the area. “Mere imitation of a recorded performance would not constitute a copyright infringement even where one performer deliberately sets out to simulate another’s performance as exactly as possible.” Notes of Committee on the Judiciary, 17 U.S.C.A. § 114(b). It is in the context of these First Amendment and federal copyright distinctions that we address the present appeal.

Nancy Sinatra once sued Goodyear Tire and Rubber Company on the basis of an advertising campaign by Young & Rubicam featuring “These Boots Are Made For Walkin’,” a song closely identified with her; the female singers of the commercial were alleged to have imitated her voice and style and to have dressed and looked like her. The basis of Nancy Sinatra’s complaint was unfair competition; she claimed that the song and the arrangement had acquired “a secondary meaning” which, under California law, was protectible. This court noted that the defendants “had paid a very substantial sum to the copyright proprietor to obtain the license for the use of the song and all of its arrangements.” To give Sinatra damages for their use of the song would clash with federal copyright law. Summary judgment for the defendants was affirmed. *Sinatra v. Goodyear Tire & Rubber Co.*, 435 F.2d 711, 717–718 (9th Cir. 1970), cert. denied, 402 U.S. 906, 91 S.Ct. 1376, 28 L.Ed.2d 646 (1971). If Midler were claiming a secondary meaning to “Do You Want To Dance” or seeking to prevent the defendants from using that song, she would fail like Sinatra. But that is not this case. Midler does not seek damages for Ford’s use of “Do You Want To Dance,” and thus her claim is not preempted by federal copyright law. Copyright protects “original works of authorship fixed in any tangible medium of expression.” 17 U.S.C. § 102(a). A

voice is not copyrightable. The sounds are not “fixed.” What is put forward as protectible here is more personal than any work of authorship.

Bert Lahr once sued Adell Chemical Co. for selling Lestoil by means of a commercial in which an imitation of Lahr’s voice accompanied a cartoon of a duck. Lahr alleged that his style of vocal delivery was distinctive in pitch, accent, inflection, and sounds. The First Circuit held that Lahr had stated a cause of action for unfair competition, that it could be found “that defendant’s conduct saturated plaintiff’s audience, curtailing his market.” *Lahr v. Adell Chemical Co.*, 300 F.2d 256, 259 (1st Cir. 1962). That case is more like this one. But we do not find unfair competition here. One-minute commercials of the sort the defendants put on would not have saturated Midler’s audience and curtailed her market. Midler did not do television commercials. The defendants were not in competition with her. See *Halicki v. United Artists Communications, Inc.*, 812 F.2d 1213 (9th Cir. 1987).

California Civil Code section 3344 is also of no aid to Midler [because the ad does not use her] “name, voice, signature, photograph, or likeness, in any manner.” . . . The statute, however, does not preclude Midler from pursuing any cause of action she may have at common law; the statute itself implies that such common law causes of action do exist because it says its remedies are merely “cumulative.” *Id.* § 3344(g).

The companion statute protecting the use of a deceased person’s name, voice, signature, photograph or likeness states that the rights it recognizes are “property rights.” *Id.* § 990(b) [Now §3344.1.—Eds.]. By analogy the common law rights are also property rights. Appropriation of such common law rights is a tort in California. *Motschenbacher v. R. J. Reynolds Tobacco Co.*, 498 F.2d 821 (9th Cir. 1974). . . . Midler’s case is different from Motschenbacher’s. He and his car were physically used by the tobacco company’s ad; he made part of his living out of giving commercial endorsements. But, as Judge Koelsch expressed it in *Motschenbacher*, California will recognize an injury from “an appropriation of the attributes of one’s identity.” *Id.* at 824. It was irrelevant that Motschenbacher could not be identified in the ad. The ad suggested that it was he. The ad did so by emphasizing signs or symbols associated with him. In the same way the defendants here used an imitation to convey the impression that Midler was singing for them.

Why did the defendants ask Midler to sing if her voice was not of value to them? Why did they studiously acquire the services of a sound-alike and instruct her to imitate Midler if Midler’s voice was not of value to them? What they sought was an attribute of Midler’s identity. Its value was what the market would have paid for Midler to have sung the commercial in person.

A voice is more distinctive and more personal than the automobile accouterments protected in *Motschenbacher*. A voice is as distinctive and personal as a face . . . At a philosophical level it has been observed that with the sound of a voice, “the other stands before me.” D. Ihde, *Listening and Voice* 77 (1976). A fortiori, these observations hold true of singing, especially singing by a singer of renown. The singer manifests herself in the song. To impersonate her voice is to pirate her identity. See W. Keeton, D. Dobbs, R. Keeton, D. Owen, *Prosser & Keeton on Torts* 852 (5th ed. 1984).

We need not and do not go so far as to hold that every imitation of a voice to advertise merchandise is actionable. We hold only that when a distinctive voice of a professional singer is widely known and is deliberately imitated in order to

sell a product, the sellers have appropriated what is not theirs and have committed a tort in California. Midler has made a showing, sufficient to defeat summary judgment, that the defendants here for their own profits in selling their product did appropriate part of her identity. *REVERSED AND REMANDED* for trial.

NOTE

The *Midler* case went to trial. The district court dismissed the action as against Ford Motor Co. The jury proceeded to award Ms. Midler \$400,000 in damages against Ford's advertising agency, Young & Rubicam, Inc., based on the "fair market value" of Midler's voice as of May 1985, when she had been approached to do the commercial herself. Midler had sought \$10,000,000 damages for the tortious imitation of her voice.

Waits v. Frito-Lay, 978 F.2d 1093 (9th Cir. 1992), cert. denied, 506 U.S. 1080 (1993)

BOOCHEVER, J.

. . . Tom Waits is a professional singer, songwriter, and actor of some renown. Waits has a raspy, gravelly singing voice, described by one fan as "like how you'd sound if you drank a quart of bourbon, smoked a pack of cigarettes and swallowed a pack of razor blades. . . . Late at night. After not sleeping for three days." Since the early 1970s, when his professional singing career began, Waits has recorded more than seventeen albums and has toured extensively, playing to sold-out audiences throughout the United States, Canada, Europe, Japan, and Australia. Regarded as a "prestige artist" rather than a musical superstar, Waits has achieved both commercial and critical success in his musical career. In 1987, Waits received *Rolling Stone* magazine's Critic's Award for Best Live Performance, chosen over other noted performers such as Bruce Springsteen, U2, David Bowie, and Madonna. *SPIN* magazine listed him in its March 1990 issue as one of the ten most interesting recording artists of the last five years. Waits has appeared and performed on such television programs as "Saturday Night Live" and "Late Night with David Letterman," and has been the subject of numerous magazine and newspaper articles appearing in such publications as *Time*, *Newsweek*, and the *Wall Street Journal*. Tom Waits does not, however, do commercials. He has maintained this policy consistently during the past ten years, rejecting numerous lucrative offers to endorse major products. Moreover, Waits' policy is a public one: in magazine, radio, and newspaper interviews he has expressed his philosophy that musical artists should not do commercials because it detracts from their artistic integrity.

Frito-Lay, Inc. is in the business of manufacturing, distributing, and selling prepared and packaged food products, including Doritos brand corn chips. Tracy-Locke, Inc. is an advertising agency which counts Frito-Lay among its clients. In developing an advertising campaign to introduce a new Frito-Lay product, SalsaRio Doritos, Tracy-Locke found inspiration in a 1976 Waits song, "Step Right Up." Ironically, this song is a jazzy parody of commercial hucksterism, and consists of a succession of humorous advertising pitches. The commercial the ad agency wrote echoed the rhyming word play of the Waits song. In its presentation of the script to Frito-Lay, Tracy-Locke had the copywriter sing a preliminary rendition of the commercial and then played Waits' recorded rendition of "Step

Right Up” to demonstrate the feeling the commercial would capture. Frito-Lay approved the overall concept and the script.

The story of Tracy-Locke’s search for a lead singer for the commercial suggests that no one would do but a singer who could not only capture the feeling of “Step Right Up” but also imitate Tom Waits’ voice. The initial efforts of the ad agency’s creative team, using a respected professional singer with a deep bluesy voice, met with disapproval from executives at both Tracy-Locke and Frito-Lay. Tracy-Locke then auditioned a number of other singers who could sing in a gravelly style.

Stephen Carter was among those who auditioned. A recording engineer who was acquainted with Carter’s work had recommended him to Tracy-Locke as someone who did a good Tom Waits imitation. Carter was a professional musician from Dallas and a Tom Waits fan. Over ten years of performing Waits songs as part of his band’s repertoire, he had consciously perfected an imitation of Waits’ voice. When Carter auditioned, members of the Tracy-Locke creative team “did a double take” over Carter’s near-perfect imitation of Waits, and remarked to him how much he sounded like Waits. In fact, the commercial’s musical director warned Carter that he probably wouldn’t get the job because he sounded too much like Waits, which could pose legal problems. Carter, however, did get the job.

At the recording session for the commercial David Brenner, Tracy-Locke’s executive producer, became concerned about the legal implications of Carter’s skill in imitating Waits, and attempted to get Carter to “back off” his Waits imitation. Neither the client nor the members of the creative team, however, liked the result. After the session, Carter remarked to Brenner that Waits would be unhappy with the commercial because of his publicly avowed policy against doing commercial endorsements and his disapproval of artists who did. Brenner acknowledged he was aware of this, telling Carter that he had previously approached Waits to do a Diet Coke commercial and “you never heard anybody say no so fast in your life.” Brenner conveyed to Robert Grossman, Tracy-Locke’s managing vice president and the executive on the Frito-Lay account, his concerns that the commercial was too close to Waits’ voice. As a precaution, Brenner made an alternate version of the commercial with another singer.

On the day the commercial was due for release to radio stations across the country, Grossman had a ten-minute long-distance telephone consultation with Tracy-Locke’s attorney, asking him whether there would be legal problems with a commercial that sought to capture the same feeling as Waits’ music. The attorney noted that there was a “high profile” risk of a lawsuit in view of recent case law recognizing the protectability of a distinctive voice. Based on what Grossman had told him, however, the attorney did not think such a suit would have merit, because a singer’s style of music is not protected. Grossman then presented both the Carter tape and the alternate version to Frito-Lay, noting the legal risks involved in the Carter version. He recommended the Carter version, however, and noted that Tracy-Locke would indemnify Frito-Lay in the event of a lawsuit. Frito-Lay chose the Carter version.

The commercial was broadcast [nationwide]. . . Waits heard it during his appearance on a Los Angeles radio program, and was shocked. He realized “immediately that whoever was going to hear this and obviously identify the voice would also identify that [Tom Waits] in fact had agreed to do a commercial for Doritos.”

In November 1988, Waits sued Tracy-Locke and Frito-Lay, alleging claims of misappropriation under California law and false endorsement under the Lanham Act. The case was tried before a jury in April and May 1990. The jury found in Waits' favor, awarding him \$375,000 compensatory damages and \$2 million punitive damages for voice misappropriation, and \$100,000 damages for violation of the Lanham Act. The court awarded Waits attorneys' fees under the Lanham Act. This timely appeal followed.

Discussion

I. Voice Misappropriation

... The jury found that the defendants had violated Waits' right of publicity by broadcasting a commercial which featured a deliberate imitation of Waits' voice. In doing so, the jury determined that Waits has a distinctive voice which is widely known. On appeal, the defendants attack the legal underpinnings of voice misappropriation, arguing that *Midler* is no longer an accurate statement of California law. They also find fault with the court's formulation of the elements of voice misappropriation in its instructions to the jury. Finally, they attack both the compensatory and punitive damages awarded by the jury as legally inappropriate and unsupported by the evidence. We address each contention in turn.

A. Continuing Viability of Midler

As a threshold matter, the defendants ask us to rethink *Midler*, and to reject it as an inaccurate statement of California law. *Midler*, according to the defendants, has been "impliedly overruled" by the Supreme Court's decision in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 109 S.Ct. 971, 103 L.Ed.2d 118 (1989). Additionally, they argue that the *Midler* tort is preempted by the federal Copyright Act. We review these questions of law *de novo*. . . .

Bonito Boats involved a Florida statute giving perpetual patent-like protection to boat hull designs already on the market, a class of manufactured articles expressly excluded from federal patent protection. The Court ruled that the Florida statute was preempted by federal patent law because it directly conflicted with the comprehensive federal patent scheme. In reaching this conclusion, the Court cited its earlier decisions in *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S.Ct. 784, 11 L.Ed.2d 661 (1964), and *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed.2d 669 (1964), for the proposition that "publicly known design and utilitarian ideas which were unprotected by patent occupied much the same position as the subject matter of an expired patent," *i.e.*, they are expressly unprotected. *Bonito Boats*, 489 U.S. at 152, 109 S.Ct. at 978.

The defendants seize upon this citation to *Sears* and *Compco* as a reaffirmation of the sweeping preemption principles for which these cases were once read to stand. They argue that *Midler* was wrongly decided because it ignores these two decisions, an omission that the defendants say indicates an erroneous assumption that *Sears* and *Compco* have been "relegated to the constitutional junkyard." Thus, the defendants go on to reason, earlier cases that rejected entertainers' challenges to imitations of their performances based on federal copyright preemption, were correctly decided because they relied on *Sears* and *Compco*. . . . This reasoning suffers from a number of flaws.

Bonito Boats itself cautions against reading *Sears* and *Compco* for a "broad pre-emptive principle" and cites subsequent Supreme Court decisions retreating

from such a sweeping interpretation. “[T]he Patent and Copyright Clauses do not, by their own force or by negative implication, deprive the States of the power to adopt rules for the promotion of intellectual creation.” *Bonito Boats*, 489 U.S. at 165, 109 S.Ct. at 985 (citing, *inter alia*, *Goldstein v. California*, 412 U.S. 546. . . .

Moreover, the Court itself recognized the authority of states to protect entertainers’ “right of publicity” in *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 . . .

The defendants ask that we rethink *Midler* anyway, arguing as the defendants did there that voice misappropriation is preempted by section 114 of the Copyright Act. . . .

Waits’ claim, like Bette Midler’s, is for infringement of voice, not for infringement of a copyrightable subject such as sound recording or musical composition. . . . Waits’ voice misappropriation claim is one for invasion of a personal property right: his right of publicity to control the use of his identity as embodied in his voice. . . . The trial’s focus was on the elements of voice misappropriation, as formulated in *Midler*: whether the defendants had deliberately imitated Waits’ voice rather than simply his style and whether Waits’ voice was sufficiently distinctive and widely known to give him a protectable right in its use. These elements are “different in kind” from those in a copyright infringement case challenging the unauthorized use of a song or recording. Waits’ voice misappropriation claim, therefore, is not preempted by federal copyright law. . . .

C. Compensatory Damage Award

The jury awarded Waits the following compensatory damages for voice misappropriation: \$100,000 for the fair market value of his services; \$200,000 for injury to his peace, happiness and feelings; and \$75,000 for injury to his goodwill, professional standing and future publicity value. The defendants contest the latter two awards, disputing both the availability of such damages in a voice misappropriation action and the sufficiency of the evidence supporting the awards.

1. Injury to Peace, Happiness and Feelings

The defendants argue that in right of publicity actions, only damages to compensate for economic injury are available. We disagree. Although the injury stemming from violation of the right of publicity “may be largely, or even wholly, of an economic or material nature,” we have recognized that “it is quite possible that the appropriation of the identity of a celebrity may induce humiliation, embarrassment, and mental distress.” *Motschenbacher*, 498 F.2d at 824 & n. 11. Contrary to the defendants’ assertions, *Midler* neither discussed nor limited the damages recoverable in a voice misappropriation action. *Midler* makes reference to the market value of Midler’s voice solely to support its conclusion that her voice has economic value and, therefore, is a protectable property right. *See* 849 F.2d at 463.

In assessing the propriety of mental distress damages, our focus is properly directed to the nature of the infringement and its embarrassing impact on the plaintiff. *Publicity and Privacy* § 4.2[A]. Often the objectionable nature of the use will cause mental distress. *Id.* § 4.2[B], [C], [D] (discussing cases). In *Grant v. Esquire, Inc.*, 367 F.Supp. 876 (S.D.N.Y.1973), for example, the court found that the mere use of a celebrity’s identity could cause embarrassment for which mental distress damages would be available. The case involved a suit by Cary Grant

against Esquire magazine for publishing a photograph in which Grant's head was superimposed on a clothing model's torso. Like Waits, Grant had taken a public position against reaping commercial profits from the publicity value of his identity. *Id.* at 880. The court, after finding that Grant had a protectable right of publicity, noted that "[i]f the jury decides in plaintiff Grant's favor he will of course be entitled to recover for any lacerations to his feelings that he may be able to establish" in addition to the fair market value of use of his identity. *Id.* at 881. Given the evidence that the commercial use of his voice was particularly offensive to Waits, we conclude that Waits' prayer for mental distress damages was properly submitted to the jury.

The defendants argue, however, that merely taking offense is an insufficient basis for awarding mental distress damages, and that under California law the evidence was insufficient to support the award. In California, mental distress damages may be recovered for "shame, humiliation, embarrassment, [and] anger." *Young v. Bank of America*, 141 Cal. App. 3d 108, 114, 190 Cal.Rptr. 122 (1983); see also *Moore v. Greene*, 431 F.2d 584, 591 & n. 3 (9th Cir. 1970) (damages available for anxiety, humiliation and indignity). Waits testified that when he heard the Doritos commercial, "this corn chip sermon," he was shocked and very angry. These feelings "grew and grew over a period of a couple of days" because of his strong public opposition to doing commercials. Waits testified, "[I]t embarrassed me. I had to call all my friends, that if they hear this thing, please be informed this is not me. I was on the phone for days. I also had people calling me saying, Gee, Tom, I heard the new Doritos ad." Added to this evidence of Waits' shock, anger, and embarrassment is the strong inference that, because of his outspoken public stance against doing commercial endorsements, the Doritos commercial humiliated Waits by making him an apparent hypocrite. This evidence was sufficient both to allow the jury to consider mental distress damages and to support their eventual award.

2. *Injury to Goodwill and Future Publicity Value*

The defendants next argue that reputational damages are available only in defamation actions and that since Waits did not allege or prove defamation, they were unavailable here. Further, they argue, there was no evidence to support the award of such damages because Waits did not show that his career had suffered. Again, we reject these contentions.

We have no doubt, in light of general tort liability principles, that where the misappropriation of identity causes injury to reputation, compensation for such injury is appropriate. See Cal.Civ.Code § 3333 (West 1970) (available damages are those "which will compensate for all of the detriment" caused by defendant's tortious conduct). Reputational damages, moreover, have been awarded in right of publicity cases. . . . As we noted above, the jury could have inferred from the evidence that the commercial created a public impression that Waits was a hypocrite for endorsing Doritos. Moreover, it also could have inferred damage to his artistic reputation, for Waits had testified that "part of my character and personality and image that I have cultivated is that I do not endorse products." Finally, from the testimony of Waits' expert witness, the jury could have inferred that if Waits ever wanted to do a commercial in the future, the fee he could command would be lowered by \$50,000 to \$150,000 because of the Doritos commercial. This evidence was sufficient to support the jury's award of \$75,000 for injury to Waits' goodwill and future publicity value.

D. Punitive Damage Award

The jury awarded Waits a total of \$2 million in punitive damages for voice misappropriation: \$1.5 million against Tracy-Locke and \$500,000 against Frito-Lay. The defendants ask that we vacate this award, arguing that punitive damages are unavailable as a matter of law, and alternatively, that the evidence was insufficient to support their award. [Citation omitted.]

In California, exemplary or punitive damages are available “where it is proven by clear and convincing evidence that the defendant has been guilty of oppression, fraud, or malice.” Cal. Civ.Code § 3294(a) (West Supp. 1992). . . .

The evidence was unequivocal that, although *Midler* was decided just three months before the conduct at issue, Tracy-Locke personnel responsible for making the Doritos commercial were familiar with the *Midler* decision. Tracy-Locke was concerned enough that the commercial could result in voice misappropriation liability that it cautioned Frito-Lay of the legal risks in choosing the Carter version. At the same time, however, Tracy-Locke stated its readiness to indemnify Frito-Lay against damages. Frito-Lay, reassured by the indemnification, chose to proceed with the Carter version. In going forward with the commercial, the defendants knowingly took a calculated risk, thereby consciously disregarding the effect of these actions on Waits’ legally recognized rights.

The defendants argue, however, that although they may have been aware that legal risks were involved, they had a good faith belief that Waits’ rights would not be infringed because they read the legal precedents differently. This argument leaves us unpersuaded. Good faith cannot be manufactured by looking to the law of other jurisdictions to define the rights of California residents. *Midler* could not be more clear that, in California at least, a well-known singer with a distinctive voice has a property right in that voice. Waits is a California resident, a fact of which Tracy-Locke personnel were aware. The defendants made a conscious decision to broadcast a vocal performance imitating Waits in markets across the country, including San Francisco and Los Angeles. This evidence is sufficient to raise at least a prima facie showing that defendants acted in conscious disregard of rights recognized in California. . . .

We believe that, viewed most favorably to Waits, this evidence was adequate to support a finding of high probability that Tracy-Locke and Frito-Lay acted with malice. Despicability reflects a moral judgment, “conscious disregard” a state of mind. A rational jury could have found the defendants’ conduct despicable because they knowingly impugned Waits’ integrity in the public eye. A rational jury also could have found that the defendants, in spite of their awareness of Waits’ legal right to control the commercial use of his voice, acted in conscious disregard of that right by broadcasting the commercial. We therefore affirm the award of punitive damages. . . .

E. Damages

The defendants urge us to vacate the damage award on Waits’ Lanham Act claim as duplicative of those damages awarded for voice misappropriation representing the fair market value of Waits’ services. Waits does not contest this point. Standing by the representations he made to the jury at trial that he was not seeking a double recovery, he asserts on appeal that he “does not oppose a reduction of the final judgment in the amount of \$100,000 based on the overlapping Lanham Act award.”

In instructing the jury on Waits' Lanham Act claim, the court stated that it could award damages for the fair market value of Waits' services. The jury awarded Waits \$100,000 on this claim. It also awarded Waits \$100,000 for the fair market value of his services on his voice misappropriation claim. The damages awarded under the Lanham Act, therefore, are duplicative. Accordingly, we vacate this portion of the judgment.

F. Attorneys' Fees

Section 35 of the Lanham Act authorizes attorneys' fee awards for prevailing plaintiffs in "exceptional cases." 15 U.S.C. § 1117. Exceptional cases include those in which the defendants' conduct is "malicious, fraudulent, deliberate, or wilful." . . .

In awarding punitive damages on Waits' voice misappropriation claim, the jury specifically found that the defendants had acted with oppression, fraud, or malice. That finding qualifies this case as an exceptional one within the meaning of section 35. The district court was therefore within its discretion in awarding Waits reasonable attorneys' fees.

Conclusion

Waits' voice misappropriation claim and his Lanham Act claim are legally sufficient. The court did not err in instructing the jury on elements of voice misappropriation. The jury's verdict on each claim is supported by substantial evidence, as are its damage awards. Its award of damages on Waits' Lanham Act claim, however, is duplicative of damages awarded for voice misappropriation; accordingly we vacate it. Finally, the court did not abuse its discretion in awarding attorneys' fees under the Lanham Act. . . . [for malice in intentionally publishing a photo without permission.]

NOTE

It should be noted that in addition to holding that §§50 and 51 of the New York Civil Rights Law did not apply in a situation in which the use complained of was newsworthy, *Stephano v. News Group Publications, Inc.*, 64 N.Y.2d 174, 485 N.Y.S.2d 220 (1984) also held that there was no common law right of publicity in New York.

White v. Samsung Electronics America, 971 F.2d 1395 (9th Cir. 1992),
cert. denied, 508 U.S. 951 (1993)

GOODWIN, J.

This case involves a promotional "fame and fortune" dispute. In running a particular advertisement without Vanna White's permission, defendants Samsung Electronics America, Inc. (Samsung) and David Deutsch Associates, Inc. (Deutsch) attempted to capitalize on White's fame to enhance their fortune. White sued, alleging infringement of various intellectual property rights, but the district court granted summary judgment in favor of the defendants. We affirm in part, reverse in part, and remand.

Plaintiff Vanna White is the hostess of *Wheel of Fortune*, one of the most popular game shows in television history. An estimated forty million people watch the program daily. Capitalizing on the fame which her participation in the show has bestowed on her, White markets her identity to various advertisers.

The dispute in this case arose out of a series of advertisements prepared for

Samsung by Deutsch. The series ran in at least half a dozen publications with widespread, and in some cases national, circulation. Each of the advertisements in the series followed the same theme. Each depicted a current item from popular culture and a Samsung electronic product. Each was set in the twenty-first century and conveyed the message that the Samsung product would still be in use by that time. By hypothesizing outrageous future outcomes for the cultural items, the ads created humorous effects. For example, one lampooned current popular notions of an unhealthy diet by depicting a raw steak with the caption: “Revealed to be health food. 2010 A.D.” Another depicted irreverent “news”-show host Morton Downey Jr. in front of an American flag with the caption: “Presidential candidate. 2008 A.D.”

The advertisement which prompted the current dispute was for Samsung video-cassette recorders (VCRs). The ad depicted a robot, dressed in a wig, gown, and jewelry which Deutsch consciously selected to resemble White’s hair and dress. The robot was posed next to a game board which is instantly recognizable as the Wheel of Fortune game show set, in a stance for which White is famous. The caption of the ad read: “Longest-running game show. 2012 A.D.” Defendants referred to the ad as the “Vanna White” ad. Unlike the other celebrities used in the campaign, White neither consented to the ads nor was she paid.

Following the circulation of the robot ad, White sued Samsung and Deutsch in federal district court under: (1) California Civil Code § 3344; (2) the California common law right of publicity; and (3) § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The district court granted summary judgment against White on each of her claims. White now appeals.

I. Section 3344

White first argues that the district court erred in rejecting her claim under section 3344. Section 3344(a) provides, in pertinent part, that “[a]ny person who knowingly uses another’s name, voice, signature, photograph, or likeness, in any manner, . . . for purposes of advertising or selling, . . . without such person’s prior consent . . . shall be liable for any damages sustained by the person or persons injured as a result thereof.” . . .

In this case, Samsung and Deutsch used a robot with mechanical features, and not, for example, a manikin molded to White’s precise features. Without deciding for all purposes when a caricature or impressionistic resemblance might become a “likeness,” we agree with the district court that the robot at issue here was not White’s “likeness” within the meaning of section 3344. Accordingly, we affirm the court’s dismissal of White’s section 3344 claim.

II. Right of Publicity

White next argues that the district court erred in granting summary judgment to defendants on White’s common law right of publicity claim. In *Eastwood v. Superior Court*, 149 Cal.App. 3d 409, 198 Cal.Rptr. 342 (1983), the California court of appeal stated that the common law right of publicity cause of action “may be pleaded by alleging (1) the defendant’s use of the plaintiff’s identity; (2) the appropriation of plaintiff’s name or likeness to defendant’s advantage, commercially or otherwise; (3) lack of consent; and (4) resulting injury.” *Id.* at 417, 198 Cal.Rptr. 342 (citing Prosser, *Law of Torts* (4th ed. 1971) § 117, pp. 804–807). The district court dismissed White’s claim for failure to satisfy *Eastwood’s* second prong, reasoning that defendants had not appropriated White’s “name or

likeness” with their robot ad. We agree that the robot ad did not make use of White’s name or likeness. However, the common law right of publicity is not so confined. . . .

The “name or likeness” formulation referred to Eastwood originated not as an element of the right of publicity cause of action, but as a description of the types of cases [in] which the cause of action had been recognized. The source of this formulation is Prosser, *Privacy*, 48 Cal.L.Rev. 383, 401–07 (1960), one of the earliest and most enduring articulations of the common law right of publicity cause of action. In looking at the case law to that point, Prosser recognized that right of publicity cases involved one of two basic factual scenarios: name appropriation, and picture or other likeness appropriation. . . .

Since Prosser’s early formulation, the case law has borne out his insight that the right of publicity is not limited to the appropriation of name or likeness [citing *Motschenbacher*.]

In *Midler*, this court held that, even though the defendants had not used Midler’s name or likeness, Midler had stated a claim for violation of her California common law right of publicity because “the defendants . . . for their own profit in selling their product did appropriate part of her identity” by using a Midler sound-alike. . . .

In *Carson v. Here’s Johnny Portable Toilets, Inc.*, 698 F.2d 831 (6th Cir.1983), the defendant had marketed portable toilets under the brand name “Here’s Johnny”—Johnny Carson’s signature “Tonight Show” introduction—without Carson’s permission. The district court had dismissed Carson’s Michigan common law right of publicity claim because the defendants had not used Carson’s “name or likeness.” *Id.* at 835. In reversing the district court, the sixth circuit found “the district court’s conception of the right of publicity . . . too narrow” and held that the right was implicated because the defendant had appropriated Carson’s identity by using, *inter alia*, the phrase “Here’s Johnny.” *Id.* at 835–37.

These cases teach not only that the common law right of publicity reaches means of appropriation other than name or likeness, but that the specific means of appropriation are relevant only for determining whether the defendant has in fact appropriated the plaintiff’s identity. The right of publicity does not require that appropriations of identity be accomplished through particular means to be actionable. It is noteworthy that the *Midler* and *Carson* defendants not only avoided using the plaintiff’s name or likeness, but they also avoided appropriating the celebrity’s voice, signature, and photograph. The photograph in *Motschenbacher* did include the plaintiff, but because the plaintiff was not visible the driver could have been an actor or dummy and the analysis in the case would have been the same. . . .

Indeed, if we treated the means of appropriation as dispositive in our analysis of the right of publicity, we would not only weaken the right but effectively eviscerate it. The right would fail to protect those plaintiffs most in need of its protection. Advertisers use celebrities to promote their products. The more popular the celebrity, the greater the number of people who recognize her, and the greater the visibility for the product. The identities of the most popular celebrities are not only the most attractive for advertisers, but also the easiest to evoke without resorting to obvious means such as name, likeness, or voice.

Consider a hypothetical advertisement which depicts a mechanical robot with male features, an African-American complexion, and a bald head. The robot is wearing black hightop Air Jordan basketball sneakers, and a red basketball uni-

form with black trim, baggy shorts, and the number 23 (though not revealing “Bulls” or “Jordan” lettering). The ad depicts the robot dunking a basketball one-handed, stiff-armed, legs extended like open scissors, and tongue hanging out. Now envision that this ad is run on television during professional basketball games. Considered individually, the robot’s physical attributes, its dress, and its stance tell us little. Taken together, they lead to the only conclusion that any sports viewer who has registered a discernible pulse in the past five years would reach: the ad is about Michael Jordan.

Viewed separately, the individual aspects of the advertisement in the present case say little. Viewed together, they leave little doubt about the celebrity the ad is meant to depict. The female-shaped robot is wearing a long gown, blond wig, and large jewelry. Vanna White dresses exactly like this at times, but so do many other women. The robot is in the process of turning a block letter on a game-board. Vanna White dresses like this while turning letters on a game-board but perhaps similarly attired Scrabble-playing women do this as well. The robot is standing on what looks to be the Wheel of Fortune game show set. Vanna White dresses like this, turns letters, and does this on the Wheel of Fortune game show. She is the only one. Indeed, defendants themselves referred to their ad as the “Vanna White” ad. We are not surprised. . . .

Because White has alleged facts showing that Samsung and Deutsch had appropriated her identity, the district court erred by rejecting, on summary judgment, White’s common law right of publicity claim. . . .

IV. *The Parody Defense*

In defense, defendants cite a number of cases for the proposition that their robot ad constituted protected speech. The only cases they cite which are even remotely relevant to this case are *Hustler Magazine v. Falwell*, 485 U.S. 46, 108 S.Ct. 876, 99 L.Ed.2d 41 (1988) and *L. L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26 (1st Cir.1987). Those cases involved parodies of advertisements run for the purpose of poking fun at Jerry Falwell and L.L. Bean, respectively. This case involves a true advertisement run for the purpose of selling Samsung VCRs. The ad’s spoof of Vanna White and Wheel of Fortune is subservient and only tangentially related to the ad’s primary message: “buy Samsung VCRs.” Defendants’ parody arguments are better addressed to non-commercial parodies. The difference between a “parody” and a “knock-off” is the difference between fun and profit.

V. *Conclusion*

In remanding this case, we hold only that White has pleaded claims which can go to the jury for its decision. . . .

ALARCON, J. (dissenting in part)

I must dissent from the majority’s holding on Vanna White’s right to publicity claim. The district court found that, since the commercial advertisement did not show a “likeness” of Vanna White, Samsung did not improperly use the plaintiff’s identity. The majority asserts that the use of a likeness is not required under California common law. According to the majority, recovery is authorized if there is an appropriation of one’s “identity.” I cannot find any holding of a California court that supports this conclusion. Furthermore, the record does not support the majority’s finding that Vanna White’s “identity” was appropriated. . . .

Notwithstanding the fact that California case law clearly limits the test of the right to publicity to name and likeness, the majority concludes that “the common law right of publicity is not so confined.” Majority opinion at p. 1397. The majority relies on two factors to support its innovative extension of the California law. The first is that the *Eastwood* court’s statement of the elements was permissive rather than exclusive. The second is that Dean Prosser, in describing the common law right to publicity, stated that it might be possible that the right extended beyond name or likeness. These are slender reeds to support a federal court’s attempt to create new law for the state of California. . . .

The majority has focused on federal decisions in its novel extension of California Common Law. Those decisions do not provide support for the majority’s decision.

In each of the federal cases relied upon by the majority, the advertisement affirmatively represented that the person depicted therein was the plaintiff. In this case, it is clear that a metal robot and not the plaintiff, Vanna White, is depicted in the commercial advertisement. The record does not show an appropriation of Vanna White’s identity. . . .

The majority appears to argue that because Samsung created a robot with the physical proportions of an attractive woman, posed it gracefully, dressed it in a blond wig, an evening gown, and jewelry, and placed it on a set that resembles the Wheel of Fortune layout, it thereby appropriated Vanna White’s identity. But an attractive appearance, a graceful pose, blond hair, an evening gown, and jewelry are attributes shared by many women, especially in Southern California. These common attributes are particularly evident among gameshow hostesses, models, actresses, singers, and other women in the entertainment field. They are not unique attributes of Vanna White’s identity. Accordingly, I cannot join in the majority’s conclusion that, even if viewed together, these attributes identify Vanna White and, therefore, raise a triable issue as to the appropriation of her identity.

The only characteristic in the commercial advertisement that is not common to many female performers or celebrities is the imitation of the Wheel of Fortune set. This set is the only thing which might possibly lead a viewer to think of Vanna White. The Wheel of Fortune set, however, is not an attribute of Vanna White’s identity. It is an identifying characteristic of a television game show, a prop with which Vanna White interacts in her role as the current hostess. To say that Vanna White may bring an action when another blond female performer or robot appears on such a set as a hostess will, I am sure, be a surprise to the owners of the show. . . .

The record shows that Samsung recognized the market value of Vanna White’s identity. No doubt the advertisement would have been more effective if Vanna White had appeared in it. But the fact that Samsung recognized Vanna White’s value as a celebrity does not necessarily mean that it appropriated her identity. The record shows that Samsung dressed a robot in a costume usually worn by television game-show hostesses, including Vanna White. A blond wig, and glamorous clothing are not characteristics unique to the current hostess of Wheel of Fortune. This evidence does not support the majority’s determination that the advertisement was meant to depict Vanna White. The advertisement was intended to depict a robot, playing the role Vanna White currently plays on the Wheel of Fortune. I quite agree that anyone seeing the commercial advertisement would be reminded of Vanna White. Any performance by another female

celebrity as a game-show hostess, however, will also remind the viewer of Vanna White because Vanna White's celebrity is so closely associated with the role. But the fact that an actor or actress became famous for playing a particular role has, until now, never been sufficient to give the performer a proprietary interest in it. I cannot agree with the majority that the California courts, which have consistently taken a narrow view of the right to publicity, would extend law to these unique facts. . . .

The majority gives Samsung's First Amendment defense short shrift because "[t]his case involves a true advertisement run for the purpose of selling Samsung VCRs." Majority opinion at p. 1401. I respectfully disagree with the majority's analysis of this issue as well.

The majority's attempt to distinguish this case from *Hustler Magazine v. Falwell*, 485 U.S. 46, 108 S.Ct. 876, 99 L.Ed.2d 41 (1988), and *L. L. Bean, Inc. v. Drake Publishers, Inc.*, 11 F.2d 26 (1st Cir. 1987), is unpersuasive. The majority notes that the parodies in those cases were made for the purpose of poking fun at the Reverend Jerry Falwell and L.L. Bean. But the majority fails to consider that the defendants in those cases were making fun of the Reverend Jerry Falwell and L. L. Bean for the purely commercial purpose of selling soft-core pornographic magazines. . . .

The effect of the majority's holding on expressive conduct is difficult to estimate. The majority's position seems to allow any famous person or entity to bring suit based on any commercial advertisement that depicts a character or role performed by the plaintiff. Under the majority's view of the law, Gene Autry could have brought an action for damages against all other singing cowboys. Clint Eastwood would be able to sue anyone who plays a tall, soft spoken cowboy, unless, of course, Jimmy Stewart had not previously enjoined Clint Eastwood. Johnny Weismuller would have been able to sue each actor who played the role of Tarzan. Sylvester Stallone could sue actors who play blue-collar boxers. Chuck Norris could sue all karate experts who display their skills in motion pictures. Arnold Schwarzenegger could sue body builders who are compensated for appearing in public. . . .

Direct competitive advertising could also be affected. Will BMW, which advertises its automobiles as "the ultimate driving machine," be able to maintain an action against Toyota for advertising one of its cars as "the ultimate saving machine"? Can Coca Cola sue Pepsi because it depicted a bottle of Coca Cola in its televised "taste test"? Indeed, any advertisement which shows a competitor's product, or any recognizable brand name, would appear to be liable for damages under the majority's view of the applicable law. Under the majority's analysis, even the depiction of an obvious facsimile of a competitor's product may provide sufficient basis for the maintenance of an action for damages. . . .

The protection of intellectual property presents the courts with the necessity of balancing competing interests. On the one hand, we wish to protect and reward the work and investment of those who create intellectual property. In so doing, however, we must prevent the creation of a monopoly that would inhibit the creative expressions of others. We have traditionally balanced those interests by allowing the copying of an idea, but protecting a unique expression of it. Samsung clearly used the idea of a glamorous female game show hostess. Just as clearly, it avoided appropriating Vanna White's expression of that role. Samsung did not use a likeness of her. The performer depicted in the commercial advertisement is unmistakably a lifeless robot. Vanna White has presented no evidence

that any consumer confused the robot with her identity. Indeed, no reasonable consumer could confuse the robot with Vanna White or believe that, because the robot appeared in the advertisement, Vanna White endorsed Samsung's product.

I would affirm the district court's judgment in all respects.

NOTES

1. In the foregoing *White* decision, the court also considered at length a Lanham Act claim by Ms. White, concluding there was a basis for finding in her favor. The court's analysis is largely duplicative of several discussions in Section 3.5 and is thus omitted at this juncture.

2. In *Wendt v. Host International*, 125 F.3d 806, 1997 U.S.App.LEXIS 25584 (9th Cir. 1997), reh. denied, 197 F.3d 1284 (9th Cir. 1999), cert. denied sub nom. *Paramount Pictures Corp. v. Wendt*, 121 S.Ct. 33, 148 L. Ed 2d 13 (2000), the court held that former "Cheers" sitcom regulars George Wendt (Norm) and John Ratzenberger (Cliff) were entitled to a jury determination of whether two seated animated robotic figures which appeared at the end of the bar in each of defendant's "Cheers" airport restaurants constituted likenesses of the plaintiffs for the purposes of Civil Code § 3344 as well as California's common law right of publicity and Section 43a of the Lanham Act (see Sec. 3.5, below).

3.4.4 Post-Mortem Availability

As we have seen in the discussion of the right of privacy, New York has no common law right of publicity and the limited right of publicity provided under §§ 50 and 51 of the Civil Rights Law does not survive death. All of the statutes set forth in the preceding section, except for §3344 of the California Civil Code, also contain provisions providing post-mortem rights. As we see below, California has a specific statute providing post-mortem rights. Where no statute exists, however, results may vary.

3.4.4.1 At Common Law

Several states recognize the descendability of the right of publicity at common law, but have not established limits for its duration. For example, in *Martin Luther King, Jr. Center For Social Change, Inc. v. American Heritage Products, Inc.*, 250 Ga. 135, 296 S.E.2d 697 (1982), the Georgia Supreme Court, responding to questions certified to it by the Eleventh Circuit in a case involving unauthorized plastic busts of Dr. King (as well as brochures and ads claiming that the busts were "an exclusive memorial" to Dr. King and "an opportunity to support the Martin Luther King, Jr. Center For Social Change," defendant's testimony being that he intended to set aside 3 percent of the \$29.95 purchase price of each bust to be donated to the Center), the court looked back to the *Pavesich* case (see Sec. 3.3.1) as recognizing the right of publicity and stated that "the right of publicity survives the death of its owner and is inheritable and devisable." The court did not suggest any outside time limit.

The New Jersey common law right of publicity also survives death according to the Third Circuit. *McFarland v. Miller*, 14 F.3d 912 (3d Cir. 1994). In that case, former child star "Spanky" McFarland, who had appeared in the 1930s "Little Rascal" film comedies, sued a New Jersey restaurant called "Spanky's" which displayed pictures of McFarland in his film character. "[W]e conclude," the court stated, "that infringement of a person's right to exploit commercially his own name or the name of a character so associated with him that it identifies

him in his own right is a cause of action under New Jersey law that survives the death of the person with whom the name has become identified” and passes to his personal representative.

NOTE

In *Zacchini* (see Sec. 3.4.1), the U.S. Supreme Court assumed that Ohio law recognized an independent right of publicity. However, in *Reeves v. United Artists Corp.*, 765 F.2d 79 (6th Cir. 1985), involving a claim by the widow of Jake LaMotta against the producers of the motion picture *Raging Bull*, a biographical account of LaMotta’s life, the Sixth Circuit held that “The Ohio Supreme Court did not reach the issue of whether the right of publicity is descendible since [Zacchini] brought suit during his lifetime, but the syllabus clearly indicates the Ohio Supreme Court’s recognition of that right as a part of its law concerning the invasion of privacy [and] actions for invasion of privacy in Ohio are not descendible and lapse upon death . . .”

3.4.4.2 Under Statute

In the *Guglielmi* and *Lugosi* decisions referred to in the preceding section, the California Supreme Court made clear that if a common law right of publicity existed, it was inter vivos only. Therefore, the Legislature adopted Civil Code §990 to provide (as then-Chief Justice Rose Bird had recommended) a post-mortem right of publicity having a term of 50 years from death. As the result of the decision of the Ninth Circuit in *Astaire v. Best Film & Video Corp.*, 136 F3d 1208 (9th Cir. 1997), *cert. denied*, 525 U.S. 868, 1998 U.S. LEXIS 5584 (1998), Section 990 has been amended and renumbered as Section 3344.1. In the *Astaire* case, the widow of Fred Astaire was unsuccessful in her attempt to prevent the distributor of instructional dance videos from utilizing clips from her late husband’s films, because of the statutory exemption for “film” set forth in subsection (l) of the former 990. The revised statute (SB 209) attempts to prevent future results of this type, by stating that a use that would otherwise be exempt shall not be exempt if the claimant can prove that the use is so closely connected to the sale of a product, article of merchandise, good or service as to constitute an advertising, marketing or merchandising use. The act also extends the post-mortem applicability of the provision to 70 years, and provides (in subsection (n)) that it applies to acts occurring in California regardless of the domicile of the deceased personality at the time of death.

§ 3344.1. Rights of deceased personality; Astaire Celebrity Image Protection Act

(a)(1) Any person who uses a deceased personality’s name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods, or services, without prior consent from the person or persons specified in subdivision (c), shall be liable for any damages sustained by the person or persons injured as a result thereof. In addition, in any action brought under this section, the person who violated the section shall be liable to the injured party or parties in an amount equal to the greater of seven hundred fifty dollars (\$ 750) or the actual damages suffered by the injured party or parties, as a result of the unauthorized use, and any profits from the unauthorized use that are attributable to the use and are not taken into account in computing the actual damages. In establishing these profits, the injured party or parties shall be required to present proof only of the gross revenue attributable to the use and the person who violated the section is

required to prove his or her deductible expenses. Punitive damages may also be awarded to the injured party or parties. The prevailing party or parties in any action under this section shall also be entitled to attorneys' fees and costs.

(2) For purposes of this subdivision, a play, book, magazine, newspaper, musical composition, audiovisual work, radio or television program, single and original work of art, work of political or newsworthy value, or an advertisement or commercial announcement for any of these works, shall not be considered a product, article of merchandise, good, or service if it is fictional or nonfictional entertainment, or a dramatic, literary, or musical work.

(3) If a work that is protected under paragraph (2) includes within it a use in connection with a product, article of merchandise, good, or service, this use shall not be exempt under this subdivision, notwithstanding the unprotected use's inclusion in a work otherwise exempt under this subdivision, if the claimant proves that this use is so directly connected with a product, article of merchandise, good, or service as to constitute an act of advertising, selling, or soliciting purchases of that product, article of merchandise, good, or service by the deceased personality without prior consent from the person or persons specified in subdivision (c).

(b) The rights recognized under this section are property rights, freely transferable, in whole or in part, by contract or by means of trust or testamentary documents, whether the transfer occurs before the death of the deceased personality, by the deceased personality or his or her transferees, or, after the death of the deceased personality, by the person or persons in whom the rights vest under this section or the transferees of that person or persons.

(c) The consent required by this section shall be exercisable by the person or persons to whom the right of consent, or portion thereof, has been transferred in accordance with subdivision (b), or if no transfer has occurred, then by the person or persons to whom the right of consent, or portion thereof, has passed in accordance with subdivision (d).

(d) Subject to subdivisions (b) and (c), after the death of any person, the rights under this section shall belong to the following person or persons and may be exercised, on behalf of and for the benefit of all of those persons, by those persons who, in the aggregate, are entitled to more than a one-half interest in the rights:

(1) The entire interest in those rights belong to the surviving spouse of the deceased personality unless there are any surviving children or grandchildren of the deceased personality, in which case one-half of the entire interest in those rights belong to the surviving spouse.

(2) The entire interest in those rights belong to the surviving children of the deceased personality and to the surviving children of any dead child of the deceased personality unless the deceased personality has a surviving spouse, in which case the ownership of a one-half interest in rights is divided among the surviving children and grandchildren.

(3) If there is no surviving spouse, and no surviving children or grandchildren, then the entire interest in those rights belong to the surviving parent or parents of the deceased personality.

(4) The rights of the deceased personality's children and grandchildren are in all cases divided among them and exercisable in the manner provided in Section 240 of the Probate Code according to the number of the deceased personality's children represented. The share of the children of a dead child of a deceased personality can be exercised only by the action of a majority of them.

(e) If any deceased personality does not transfer his or her rights under this section by contract, or by means of a trust or testamentary document, and there are no surviving persons as described in subdivision (d), then the rights set forth in subdivision (a) shall terminate.

(f)(1) A successor in interest to the rights of a deceased personality under this

section or a licensee thereof may not recover damages for a use prohibited by this section that occurs before the successor in interest or licensee registers a claim of the rights under paragraph (2).

(2) Any person claiming to be a successor in interest to the rights of a deceased personality under this section or a licensee thereof may register that claim with the Secretary of State on a form prescribed by the Secretary of State and upon payment of a fee as set forth in subdivision (d) of Section 12195 of the Government Code. The form shall be verified and shall include the name and date of death of the deceased personality, the name and address of the claimant, the basis of the claim, and the rights claimed.

(3) Upon receipt and after filing of any document under this section, the Secretary of State shall post the document along with the entire registry of persons claiming to be a successor in interest to the rights of a deceased personality or a registered licensee under this section upon the World Wide Web, also known as the Internet. The Secretary of State may microfilm or reproduce by other techniques any of the filings or documents and destroy the original filing or document. The microfilm or other reproduction of any document under the provisions of this section shall be admissible in any court of law. The microfilm or other reproduction of any document may be destroyed by the Secretary of State 70 years after the death of the personality named therein.

(4) Claims registered under this subdivision shall be public records.

(g) No action shall be brought under this section by reason of any use of a deceased personality's name, voice, signature, photograph, or likeness occurring after the expiration of 70 years after the death of the deceased personality.

(h) As used in this section, "deceased personality" means any natural person whose name, voice, signature, photograph, or likeness has commercial value at the time of his or her death, whether or not during the lifetime of that natural person the person used his or her name, voice, signature, photograph, or likeness on or in products, merchandise or goods, or for purposes of advertising or selling, or solicitation of purchase of, products, merchandise, goods, or services. A "deceased personality" shall include, without limitation, any such natural person who has died within 70 years prior to January 1, 1985.

(i) As used in this section, "photograph" means any photograph or photographic reproduction, still or moving, or any video tape or live television transmission, of any person, such that the use in connection with any news, public affairs, or sports broadcast or account, or any political campaign, shall not constitute a use for which consent is required under subdivision (a).

(k) The use of a name, voice, signature, photograph, or likeness in a commercial medium shall not constitute a use for which consent is required under subdivision (a) solely because the material containing the use is commercially sponsored or contains paid advertising. Rather, it shall be a question of fact whether or not the use of the deceased personality's name, voice, signature, photograph, or likeness was so directly connected with the commercial sponsorship or with the paid advertising as to constitute a use for which consent is required under subdivision (a).

(l) Nothing in this section shall apply to the owners or employees of any medium used for advertising, including, but not limited to, newspapers, magazines, radio and television networks and stations, cable television systems, billboards, and transit ads, by whom any advertisement or solicitation in violation of this section is published or disseminated, unless it is established that the owners or employees had knowledge of the unauthorized use of the deceased personality's name, voice, signature, photograph, or likeness as prohibited by this section.

(m) The remedies provided for in this section are cumulative and shall be in addition to any others provided for by law.

(n) This section shall apply to the adjudication of liability and the imposition of

any damages or other remedies in cases in which the liability, damages, and other remedies arise from acts occurring directly in this state. For purposes of this section, acts giving rise to liability shall be limited to the use, on or in products, merchandise, goods, or services, or the advertising or selling, or soliciting purchases of, products, merchandise, goods, or services prohibited by this section.

(o) This section shall be known and may be cited as the Astaire Celebrity Image Protection Act.

NOTES

1. For a discussion of the impact of the new statute, see Joseph J. Beard, “Fresh Flowers For Forest Lawn: Amendment of the California Post-Mortem Right of Publicity Statute,” *ABA Entertainment & Sports Lawyer*, Vol. 17 No. 4 (Winter 2000), p. 1.

2. The estate of Janis Joplin brought suit under the former §990 over a two-act play concerning the deceased rock singer. In *Joplin Enterprises v. Allen*, 795 F. Supp. 349 (W.D.Wash. 1992), the court held that the estate could not proceed under § 990 of the California Civil Code, because the statute by its terms covers only “merchandise, advertising, and endorsements” and specifically excludes from its coverage plays, books or musical compositions. The court also noted that California’s common law right of publicity was not descendible. Thus, while the trial proceeded on other grounds, the rights of publicity claims were dismissed.

3.4.4.3 Conflicts Problems

As of this writing, there is no uniform rule concerning the descendability of property rights. As we have seen, some of the state statutes (New York being the notable exception) provide for descendability. This has been an issue in many cases where the heirs of a decedent domiciled in one state have sought to enforce publicity rights under the laws of another state. Except for statutes such as those in Indiana (and the new California Civil Code §3344.1), the outcome will generally depend upon whether the right of publicity is descendible under the law of the state in which the decedent was domiciled at the time of death.

In *Southeast Bank, N.A. v. Lawrence*, 66 N.Y.2d 910, 498 N.Y.S.2d 775 (1985), the personal representative of the estate of the late playwright Tennessee Williams, a Florida domiciliary at the time of his death, sought to enjoin defendants, the owners of a theatre located on West 48th Street in New York City, from renaming the theatre the “Tennessee Williams.” In its complaint, plaintiff alleged, among other things, that the renaming of the theatre without its consent violated the decedent’s descendible right of publicity.

Special Term granted plaintiff’s motion for a preliminary injunction and denied defendant’s cross motion to dismiss the complaint. That order was affirmed by the appellate division. This was now reversed.

The court in its opinion said:

The parties have assumed that the substantive law of New York is dispositive of the appeal and have addressed Florida law only tangentially. Both Special Term and the Appellate Division decided the case under what they believed to be New York law. In doing so, all have overlooked the applicable choice of law principle followed by both New York and Florida, that questions concerning personal property rights are to be determined by reference to the substantive law of the decedent’s domicile. . . . For choice of law purposes, at least, rights of publicity constitute personality. . . .

Under Florida law (Fla.Stats.Ann. § 540.08), only one to whom a license has been

issued during decedent's lifetime and the decedent's surviving spouse and children possess a descendible right of publicity, which is extremely limited and which Florida courts have refused to extend beyond the contours of the statute. . . . Since Tennessee Williams did not have a surviving spouse or child and did not issue a license during his lifetime, plaintiff possesses no enforceable property right. In light of this holding, we do not pass upon the question of whether a common-law descendible right of publicity exists in this State. . . .

However, in *Prima v. Darden Restaurants, Inc.*, 78 F.Supp.2d 337 (D.N.J. 2000), the widow of "swing"-era legend singer/songwriter Louis Prima was able to sue the Olive Garden restaurant chain in New Jersey in 1999 (for using a "soundalike" in a commercial), although Prima had resided in Nevada from 1954 until 1976, after which, in a coma, he was in a hospital, and then a clinic, in Louisiana until his death in 1978. Defendants claimed that Louisiana law should apply, because Prima had been born there and had returned to live, work and perform there at times during his life. (This would have ended the matter, since, according to the court's interpretation, Louisiana's right of privacy subsumes the right of publicity and is not descendible.) Plaintiff, a resident of New Jersey, argued for the application of either New Jersey or Nevada law. Dismissing Prima's contacts with Louisiana as "minuscule," the court said that while Louisiana might have some interest in permitting its citizens to use Prima's persona after his death, the defendants were not citizens of Louisiana. On the other hand, New Jersey and Nevada had meaningful contacts with Prima and his widow. Since the widow was domiciled in New Jersey at the time the alleged tort occurred, and since there was no conflict between the laws of New Jersey and Nevada, the court applied New Jersey law.

3.4.5 Defensive Aspects

As we have seen in the foregoing sections, the First Amendment serves to limit the right of privacy. So, too, the First Amendment limits the right of publicity, as we see in the *New Kids on the Block* decision. However, there is a limit to the limitation, as the *Zacchini* case teaches us: The courts will not permit exploitation beyond what is reasonably necessary to convey the newsworthiness of an event.

3.4.5.1 Public Figures/Newsworthiness

New Kids on the Block v. News America Publishing, 971 F.2d 302 (9th Cir. 1992)

KOZINSKI, J.

The individual plaintiffs perform professionally as The New Kids on the Block, reputedly one of today's hottest musical acts. This case requires us to weigh their rights in that name against the rights of others to use it in identifying the New Kids as the subjects of public opinion polls.

Background

No longer are entertainers limited to their craft in marketing themselves to the public. This is the age of the multi-media publicity blitzkrieg: Trading on their popularity, many entertainers hawk posters, T-shirts, badges, coffee mugs

and the like—handsomely supplementing their incomes while boosting their public images. The New Kids are no exception; the record in this case indicates there are more than 500 products or services bearing the New Kids trademark. Among these are services taking advantage of a recent development in telecommunications: 900 area code numbers, where the caller is charged a fee, a portion of which is paid to the call recipient. Fans can call various New Kids 900 numbers to listen to the New Kids talk about themselves, to listen to other fans talk about the New Kids, or to leave messages for the New Kids and other fans.

The defendants, two newspapers of national circulation, conducted separate polls of their readers seeking an answer to a pressing question: Which one of the New Kids is the most popular? *USA Today's* announcement contained a picture of the New Kids and asked, "Who's the best on the block?" The announcement listed a 900 number for voting, noted that "any USA Today profits from this phone line will go to charity." . . .

The Star's announcement, under a picture of the New Kids, went to the heart of the matter: "Now which kid is the sexiest?" The announcement, which appeared in the middle of a page containing a story on a New Kids concert, also stated:

Which of the New Kids on the Block would you most like to move next door?
STAR wants to know which cool New Kid is the hottest with our readers.

Readers were directed to a 900 number to register their votes; each call cost 95 cents per minute.

Fearing that the two newspapers were undermining their hegemony over their fans, the New Kids filed a shotgun complaint in federal court raising no fewer than ten claims: (1) common law trademark infringement; (2) Lanham Act false advertising; (3) Lanham Act false designation of origin; (4) Lanham Act unfair competition; (5) state trade name infringement; (6) state false advertising; (7) state unfair competition; (8) commercial misappropriation; (9) common-law misappropriation; and (10) intentional interference with prospective economic advantage. . . . The district court granted summary judgment for defendants. 745 F. Supp. 1540 (C.D.Cal. 1990). . . .

I

[The Court rejected plaintiffs' trademark infringement claims, holding that the newspapers' use of the group's professional name was within the scope of the qualified privilege to make reference to trademarks for the purpose of comparison, criticism, and similar uses.] Much useful social and commercial discourse would be all but impossible if speakers were under threat of an infringement lawsuit every time they made reference to a person, company or product by using its trademark. . . . While plaintiffs' trademark certainly deserves protection against copycats and those who falsely claim that the New Kids have endorsed or sponsored them, such protection does not extend to rendering newspaper articles, conversations, polls and comparative advertising impossible. . . . Both *The Star* and *USA Today* reference the New Kids only to the extent necessary to identify them as the subject of the polls; they do not use the New Kids' distinctive logo or anything else that isn't needed to make the announcements intelligible to readers [and] nothing in the announcements suggests joint sponsorship or endorsement by the New Kids.

II

The New Kids raise three additional claims that merit brief attention.

A. The New Kids claim that *USA Today's* and *The Star's* use of their name amounted to both commercial and common law misappropriation under California law. Although there are subtle differences between these two causes of action, all that's material here is a key similarity between them: The papers have a complete defense to both claims if they used the New Kids name "in connection with any news, public affairs, or sports broadcast or account" which was true in all material respects. See Cal.Civ.Code § 3344(d). . . .

In this case, *USA Today's* and *The Star's* use of the New Kids' name was "in connection with" news accounts: The Star ran concurrent articles on the New Kids along with its 900-number poll, while *USA Today* promised a subsequent story on the popularity of various members of the singing group. Both papers also have an established track record of polling their readers and then reporting the poll results as part of a later news story. The New Kids' misappropriation claims are barred by California Civil Code section 3344(d).

B. The New Kids' remaining claim is for intentional interference with prospective economic advantage, but they ignore the maxim that all's fair in love, war and the free market. Plaintiffs' case rests on the assumption that the polls operated to siphon off the New Kids' fans or divert their resources away from "official" New Kids products. Even were we to accept this premise, no tort claim has been made out: "So long as the plaintiff's contractual relations are merely contemplated or potential, it is considered to be in the interest of the public that any competitor should be free to divert them to himself by all fair and reasonable means. . . . In short, it is no tort to beat a business rival to prospective customers." *A-Mark Coin Co. v. General Mills, Inc.*, 148 Cal.App. 3d 312, 323, 195 Cal.Rptr. 859 (1983).

Affirmed.

However, as the following decision shows, newsworthiness is not without limits, and a news medium cannot appropriate an entire performance under the guise of newsworthiness.

3.4.5.2 Advertising and Promotion

Just as the courts have long recognized that the presence of a profit motive does not deprive a news or entertainment medium of its First Amendment rights, so have they also recognized that the survival of such a medium requires that it have the ability to promote and market itself, in order to sustain and, if possible, increase its audience. (This is mentioned in *Lerman v. Flynt Distributing Co.*, in Sec. 3.3.3.) In so doing, the courts have told us, it is permissible for the medium to present brief examples of its prior offerings as part of its advertising. As the following cases illustrate, the courts take a fairly expansive view in this area. In the *Namath* case, the court is not put off by the fact that the advertising insert in question looks very much like an endorsement, while in the *Montana* case, the court permits the sale of a poster which, under normal circumstances, would most definitely engage the right of publicity. However, as we see in the *Eastwood* note, the advertising/promotion defense is not without limits.

Namath v. Sports Illustrated, 48 A.D.2d 487, 371 N.Y.S.2d 10 (1st Dept. 1975), aff'd, 39 N.Y.2d 897, 386 N.Y.S.2d 397 (1976)

CAPPAZOLI, J.

Plaintiff sought substantial compensatory and punitive damages by reason of defendants' publication and use of plaintiff's photograph without his consent. That photograph, which was originally used by defendants, without objection from plaintiff, in conjunction with a news article published by them on the 1969 Super Bowl Game, was used in advertisements promoting subscriptions to their magazine, *Sports Illustrated*.

The use of plaintiff's photograph was merely incidental advertising of defendants' magazine in which plaintiff had earlier been properly and fairly depicted and, hence, it was not violative of the Civil Rights Law (*Booth v. Curtis Publishing Co.*, 15 A.D.2d 343, 223 N.Y.S.2d 737, aff'd, 11 N.Y.2d 907, 228 N.Y.S.2d 468, 182 N.E.2d 812).

Certainly, defendants' subsequent republication of plaintiff's picture was "in motivation, sheer advertising and solicitation. This alone is not determinative of the question so long as the law accords an exempt status to incidental advertising of the news medium itself." (*Booth v. Curtis Publishing Co.*, *supra*, p. 349, 223 N.Y.S.2d p. 744.) Again, it was stated, at 15 A.D.2d p. 350, 223 N.Y.S.2d p. 744 of the cited case, as follows:

Consequently, it suffices here that so long as the reproduction was used to illustrate the quality and content of the periodical in which it originally appeared, the statute was not violated, albeit the reproduction appeared in other media for purposes of advertising the periodical.

Contrary to the dissent, we deem the cited case to be dispositive hereof. The language from the Namath advertisements, relied upon in the dissent, does not indicate plaintiff's endorsement of the magazine *Sports Illustrated*. Had that been the situation, a completely different issue would have been presented. Rather, that language merely indicates, to the readers of those advertisements, the general nature of the contents of what is likely to be included in future issues of the magazine. . . .

KUPFERMAN, J. (dissenting)

It is undisputed that one Joseph W. Namath is an outstanding sports figure, redoubtable on the football field. Among other things, as the star quarterback of the New York Jets, he led his team to victory on January 12, 1969 in the Super Bowl in Miami.

This feat and the story of the game and its star were heralded with illustrative photographs in the January 20, 1969 issue of *Sports Illustrated*, conceded to be an outstanding magazine published by Time Incorporated and devoted, as its name implies, to the activities for which it is famous. Of course, this was not the first nor the last time that *Sports Illustrated* featured Mr. Namath and properly so.

The legal problem involves the use of one of his action photos from the January 20, 1969 issue in subsequent advertisements in other magazines as promotional material for the sale of subscriptions to *Sports Illustrated*.

Plaintiff contends that the use was commercial in violation of his right of privacy under sections 50 and 51 of the Civil Rights Law. . . . Further, that because he was in the business of endorsing products and selling the use of his name and likeness, it interfered with this right to such sale, sometimes known as the right of publicity. *Haelan Laboratories v. Topps Chewing Gum*, 202 F.2d 866 (2nd Cir. 1953). Defendants contend there is an attempt to invade their constitutional rights under the First and Fourteenth Amendments by the maintenance of this action and that, in any event, the advertisements were meant to show “the nature, quality and content” of the magazine and not to trade on the plaintiff’s name and likeness.

Initially, we are met with the determination in a similar case, *Booth v. Curtis Publishing Co.*, 15 A.D.2d 343, 223 N.Y.S.2d 737 (1st Dept.) aff’d without op., 11 N.Y.2d 907, 228 N.Y.S.2d 468 182 N.E.2d 812 (1962) relied on by Baer, J., in his opinion at Special Term dismissing the complaint.

The plaintiff was Shirley Booth, the well-known actress, photographed at a resort in the West Indies, up to her neck in the water and wearing an interesting chapeau, which photo appeared in *Holiday Magazine* along with photographs of other prominent guests. This photo was then used as a substantial part of an advertisement for *Holiday*.

Mr. Justice Breitel (now Chief Judge Breitel) wrote:

Consequently, it suffices here that so long as the reproduction was used to illustrate the quality and content of the periodical in which it originally appeared, the statute was not violated, albeit the reproduction appeared in other media for purposes of advertising the periodical. [15 A.D.2d at p. 350, 223 N.Y.S.2d at p. 744]

However, the situation is one of degree. A comparison of the Booth and Namath photographs and advertising copy shows that in the Booth case, her name is in exceedingly small print, and it is the type of photograph itself which attracted attention. In the Namath advertisement, we find, in addition to the outstanding photograph, in *Cosmopolitan Magazine* (for women) the heading “The Man You Love Loves Joe Namath,” and in *Life*, the heading “How to Get Close to Joe Namath.” There seems to be trading on the name of the personality involved in the defendants’ advertisements. . . .

The complaint should not have been dismissed as a matter of law.

**Montana v. San Jose Mercury News 34 Cal.App. 4th 790, 40
Cal.Rptr.2d 639 (Ct.App. 6th Dist. 1995)**

COTTLE, P. J.

[Montana led the San Francisco 49ers to victory in the 1989 and 1990 Super Bowls. In each instance, the News ran next-day first-page stories highlighting Montana’s achievements. Since the 1990 win gave the 49ers an unprecedented four Super Bowl wins in a single decade, the next Sunday News included a special “Souvenir Section” entitled “Trophy Hunters,” the first page of which featured an artist’s rendition of Montana. Within two weeks, the News began to sell copies of the various pages from the “Souvenir Section” in poster form. Approximately 30 percent of the posters were sold at \$5 each, the balance being given away at charity events. Montana sought relief for (1) common law com-

mercial misappropriation, and (2) violation of Civil Code §3344. The News' motion for summary judgment was granted, and the court of appeals affirmed.]

[N]o [common law] cause of action will lie for the “[p]ublication of matters in the public interest, which rests on the right of the public to know and the freedom of the press to tell it . . .” (*Dora v. Frontline Video Inc.* (1993) 15 Cal.App. 4th 536, 542, 18 Cal.Rptr.2d 790; see U.S. Const. Art. 1). Further, a matter in the public interest is not restricted to current events but may extend to the reproduction of past events (*Id. Carlisle v. Fawcett Publications, Inc.* (1962) 201 Cal.App. 2d 733, 746, 20 Cal.Rptr. 405; *Eastwood v. Superior Court* [(1983) 149 Cal.App. 3d 409, 421, 198 Cal.Reptr. 342]. . . .

[Civil Code §3344] complements rather than codifies common law misappropriation (*Lugosi v. Universal Pictures* (1979) 25 Cal.3d 813, 819, 160 Cal. Rptr. 323, 603 P.2d 425). . . . Like the common law cause of action, the statutory cause of action specifically exempts from liability the use of a name or likeness in connection with the reporting of a matter in the public interest. . . .

. . . The question [Montana] raises in this appeal is whether the relatively contemporaneous reproduction of these pages, in poster form, for resale, is [like the earlier news reports] entitled to First Amendment protection. We conclude that it is. This is because Montana's name and likeness appeared in the posters for precisely the same reason they appeared on the original newspaper front pages: because Montana was a major player in contemporaneous newsworthy sports events. Under these circumstances, Montana's claim that SJMN used his face and name solely to extract the commercial value from them fails.

Although we have been unable to locate any cases directly on point, several cases discuss First Amendment implications of the sale of posters, videotapes or movies of recognizable individuals without their consent. *Paulsen v. Personality Posters, Inc.* (1968) 59 Misc.2d 444, 299 N.Y.S.2d 501, is illustrative. There, comedian Pat Paulsen sought a preliminary injunction to bar a poster marketer from selling posters of him with the words “FOR PRESIDENT” written at the bottom. Paulsen had conducted a mock campaign for the presidency in 1968. In discussing whether Paulsen's statutorily defined right of privacy [Under §§50 and 51 of New York's Civil Rights Law—Eds.] had been abridged, the court observed “that the statute was not intended to limit activities involving the dissemination of news or information concerning matters of public interest . . . [.] [S]uch activities are privileged and do not fall within ‘the purposes of trade’ contemplated by Section 51 [New York's equivalent of California Civil Code section 3344], notwithstanding that they are also carried on for a profit.” [Citations]. Thus, it was early held that newspapers, magazines, and newsreels are exempt from the statutory injunction when using a name or picture in connection with an item of news or one that is newsworthy and such privileged status has also been extended to other communications media including books, comic books, radio, television and motion pictures. [Citations.] Indeed, it is clear that any format of ‘the written word or picture,’ including posters and handbills [citation] will be similarly exempted in conjunction with the dissemination of news or public interest presentations. . . . (*Id.* 199 N.Y.S.2d at p. 506.)

Applying those principles to the poster of Paulsen, the court stated: “When a well-known entertainer enters the presidential ring, tongue in cheek or otherwise, it is clearly newsworthy and of public interest. A poster which portrays plaintiff in that role, and reflects the spirit in which he approaches said role, is

a form of public interest presentation to which protection must be extended.” (*Paulsen v. Personality Posters, Inc.*, *supra*, 299 N.Y.S.2d at p. 507)

The same could be said here. When Montana led his team to four Super Bowl championships in a single decade, it was clearly a newsworthy event. Posters portraying the 49ers’ victories are, like the poster in *Paulsen*, “form[s] of public interest presentation to which protection must be extended.” (299 N.Y.S.2d at p. 507.)

A similar conclusion was reached in *Jackson v. MPI Home Video* (N.D.Ill. 1988) 694 F. Supp. 483. In that case, the reverend Jesse Jackson sought an injunction against the unauthorized distribution of videocassettes of a copyrighted speech he gave to the 1988 Democratic convention. The court granted the injunction based on Jackson’s copyright claims. At the same time, it noted that “Jackson’s chances of success on [his] right to publicity claim appear less than negligible” as the “defendants claim[ed] that they were engaged in news reporting . . .” (*Id.* at 492.) The court explained that . . . [p]ublic figures possess [the right of publicity] with respect to commercial use of their names and likeness [sic]. . . . But public figures do not retain the right of publicity against the use of name and likeness in the news media.” [Citation.] (*Id.* at p. 492.)

And in *Dora v. Frontline Video, Inc.*, *supra*, 15 Cal.App. 4th at p. 536, 18 Cal.Rptr 790, a self-proclaimed surfing “legend” [unsuccessfully] sued the producer of a video documentary on surfing [because] the documentary contained matters of public interest and was therefore protected by the First Amendment. The court further held that the statutory exemption from liability for “public affairs” (Civ.Code., §3344, subd. (d)) applied to surfing, which “is of more than passing interest to some. It has created a life-style that influences speech, behavior, dress, and entertainment, among other things. A phenomenon of such scope has an economic impact, because it affects purchases, travel and the housing market. Surfing has also had a significant influence on the popular culture, and in that way touches many people.” (*Id.* at p. 546, 18 Cal.Rptr. 790.) Again, the same public interest considerations applicable to surfing apply with equal force to professional football.

Additionally, SJMN had a right to republish its front page sports stories to show the quality of its work product. It is well established that “a person’s photograph originally published in one issue of a periodical as a newsworthy subject (and therefore concededly exempt from the statutory prohibitions) may be republished subsequently in another medium as an advertisement for the periodical itself, illustrating the quality and content of the periodical, without the person’s written consent.” (*Booth v. Curtis Publishing Company* (1962) 15 A.D.2d 343, 223 N.Y.S.2d 737, 738–739.) In the *Booth* case, the court held that actress Shirley Booth’s right of publicity was not abridged by the publication of her photograph from an earlier edition of *Holiday* magazine in a later edition advertising the periodical.

The same rule was applied in *Cher v. Forum Intern., Ltd.* (9th Cir. 1982) (692 F.2d 634). In that case, actress/singer Cher had been interviewed by a talk show host in connection with a planned cover story on her in *Us* magazine. However, Cher and the magazine had a falling out, and plans for the story were dropped. The interviewer then sold the Cher interview to the publishers of *Star*, a tabloid, and *Forum*, a magazine. Cher sued, saying that her reputation was “degraded by the suggestion that she would give an exclusive interview to [those] publication[s].” (*Id.* at 637.) Advertisements about Cher’s interview in *Forum* appeared

in *Star*, *Penthouse*, *Forum*, and the *New York Daily News*, falsely stating that Cher would divulge secrets to *Forum* that she “won’t tell People and would never tell Us.” (*Id.* at p. 638.)

Applying California law, the court held that the publication of the interview in *Forum* was protected by the First Amendment. The Ninth Circuit pointed out that the California Supreme Court has acknowledged that “the right of publicity has not been held to outweigh the value of free expression. Any other conclusion would allow reports and commentaries on the thoughts and conduct of public and prominent persons to be subject to censorship under the guise of preventing the dissipation of the publicity value of a person’s identity.” (*Id.* at p. 638; citing *Guglielmi v. Spelling-Goldberg Productions* (1979) 25 Cal.3d 860, 873, 160 Cal.Rptr. 352, 603 P.2d 454, conc. opn. of Bird, J.)

[Thus,] “[c]onstitutional protection extends to the truthful use of a public figure’s name and likeness in advertising which is merely an adjunct of the protected publication and promotes only the protected publication. [Citation.] Advertising to promote a news medium, accordingly, is not actionable under an appropriation of publicity theory so long as the advertising does not falsely claim that the public figure endorses that news medium.” (*Cher v. Forum Intern., Ltd.*, 692 F.2d at p. 639; see also *Namath v. Sports Illustrated* (1975) 48 A.D.2d 487, 371 N.Y.S.2d 10.)

At the hearing on the summary judgment motion in this case, SJMN submitted undisputed evidence that it sold the posters to advertise the quality and content of its newspapers. The posters were effective in this regard: they were exact reproductions of pages from the paper [without] additional information not included [therein] and they did not state or imply that Montana endorsed the newspaper. SJMN also submitted evidence showing that it set the price of the posters with the intent simply to recover its costs. Where, as here, a newspaper page covering newsworthy events is reproduced for the purposes of showing the quality and content of the newspaper, the subsequent reproduction is exempt from the statutory and common law prohibitions [and the fact that the posters were sold is without significance.] “The First Amendment is not limited to those who publish without charge . . .” citing *Guglielmi v. Spelling-Goldberg Productions*, *supra*, and *Joseph Burstyn, Inc. v. Wilson* (1952) 343 U.S. 495, 501–502, 72 S.Ct. 777, 780, 96 L.Ed. 1098.)

In summary, the First Amendment protects the posters complained about here for two distinct reasons: first, because the posters themselves report newsworthy items of public interest, and second, because a newspaper has a constitutional right to promote itself by reproducing its originally protected articles or photographs. . . .

Wunderlich and Mihara, JJ, concur.

NOTE

On the other hand, the right to utilize photographs and posters for promotional purposes is not without limits, as demonstrated by *Eastwood v. Superior Court of L.A. County*, 198 Cal. Rptr.342 (Ct. App. 2d Div. 1983). There, Clint Eastwood successfully overcame a demurrer to claims brought under Civil Code §3344, his common law right of publicity, as well as his common law right of privacy (the “false light” branch) where he charged that the *National Enquirer* knowingly published a false—albeit non-defamatory—article detailing the alleged romantic involvement between Eastwood and country singing star Tanya Tucker at a time when Eastwood was living with longtime companion Sondra

Locke, and included pictures of Eastwood and Tucker on the front page of the issue above the caption “Clint Eastwood in Love Triangle with Tanya Tucker.” The pictures and title were also included in television ads for the issue. (Interestingly, the *Enquirer* did not contest the “false light” claim.) In overruling the demurrer on the other causes of action, the Court of Appeals observed that “California law has not imposed any requirement that the unauthorized use or publication of a person’s name or picture be suggestive of an endorsement or association with the injured person,” and that “to the extent [that the] use of [Eastwood’s name and picture] attracted the readers’ attention, the *Enquirer* gained a commercial advantage [and] used Eastwood’s personality in the context of an alleged news account . . . to generate maximum curiosity and the necessary motivation to purchase the newspaper.” This use “provided the *Enquirer* with a ready-made ‘scoop’—a commercial advantage over its competitors which it would not otherwise have. Absent a constitutional or statutory proscription, we find that Eastwood can show that such use is a subterfuge or a cover-up for commercial exploitation.” The court rejected the *Enquirer*’s claim that the use was covered by the “news account” exemption provided by Civil Code §3344(d). The court explained that

[a]ll fiction is false in the literal sense in that it is imagined rather than actual. However, works of fiction are constitutionally protected in the same manner as topical news stories. . . . We have no doubt that the subject of the *Enquirer* article . . . is a matter of public concern, which would generally preclude the imposition of liability. . . . [However, while observing that Eastwood would have to meet the standards of *New York Times v. Sullivan*,] in privacy cases the concern is with nondefamatory lies masquerading as truth, and [with respect to the statutory right of publicity,] Civil Code section 3344 does not provide exemption for a knowing or reckless falsehood. . . . [T]he First Amendment does not immunize *Enquirer* when the entire article is allegedly false . . . [and] the deliberate fictionalization of Eastwood’s personality constitutes commercial exploitation, and becomes true when it is presented to the reader as if true with the requisite scienter. . . .”

3.5 PERSONAL RIGHTS: THE LANHAM ACT AND OTHER FEDERAL LEGISLATION

3.5.1 Introduction: A National Remedy

Celebrities may look beyond rights of privacy and publicity to assert other legal bases for their complaints about invasion of their personal rights. The legal implications of the Lanham Act, more general trademark principles, and unfair competition are discussed below. The central focus is the federal trademark act, the Lanham Act, and, more specifically, Section 43a, which reads as follows:

15 U.S.C. St. 1125. False designations of origin and false descriptions forbidden

(a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

Called by one commentator a “wild card” (Brown, “Copyright and Its Upstart Cousins: Privacy, Publicity and Unfair Competition,” 33 *J. Copyright Soc. Am.* 301,

309 [1986]), the Lanham Act offers a celebrity significant protection against the unauthorized use of his or her persona. In addition to its protection against infringement of registered trademarks, Section 43(a) of the Lanham Act provides protection against false representation likely to cause public confusion about origin and sponsorship. This section thus creates a “federal statutory tort,” with “broad remedial protection” (Comment, “Whose Voice Is It Anyway? *Midler v. Ford Motor Co.*,” 8 *Cardozo Arts & Ent. L.J.* 201, 217 [1989]).

Although one need not possess a registered trademark or servicemark in order to avail oneself of the protections of Section 43a, it is helpful to consider trademark, tradename, and service mark protections for individuals and their creative efforts. A brief description illustrates how each might be used in transforming the individual into a protected business.

TRADEMARKS

A trademark is a sign, device, or mark by which the goods produced or dealt in by a particular individual or business are distinguished from those produced or dealt in by others. The Trademark Act defines the term “trademark” to include any word, name, symbol, or device adopted and used to identify goods and distinguish them from others.

A trademark is closely analogous to the goodwill of a business. It represents the “commercial signature” of the trademark owner placed upon the merchandise or the package in which it is sold.

The purpose of a trademark is twofold. First, a trademark’s function is to designate goods as the product of a particular trader, thereby protecting the trader’s goodwill as against the sale of another’s products as the trader’s own. Second, a trademark also assures the public that they are procuring the genuine goods they seek. It is therefore imperative that for a word, name, symbol, or device to constitute a trademark, it must point distinctly to the origin or ownership of the goods to which it is affixed. The reason for this requirement is that unless the word, name, symbol, or device clearly points out the origin or ownership of the goods, the individual or business claiming trademark protection cannot be harmed by any appropriation or imitation of them by others; nor can the public be deceived. Trademarks may be:

1. Fanciful (coined words which have been invented for the sole purpose of functioning as a trademark).
2. Arbitrary (words or symbols in common usage in the language but arbitrarily applied to goods).
3. Suggestive (words which suggest but do not primarily describe the goods or their characteristics).
4. Descriptive (marks that describe the qualities, ingredients, or characteristics of a product).

Trademark rights are protected by affixation of the mark on the goods themselves and use of the mark in interstate commerce. Trademark infringement is determined by the likelihood of confusion among the purchasing public. The similarity of the marks in sound, appearance, and meaning, and the similarities of the channels of trade and the goods are all factors in determining trademark infringement.

TRADENAMES

The term “tradename” is most commonly used to indicate a part or all of a business and includes individual names, surnames, and abbreviations of firm names. It is typically a name, word, or phrase used by one engaged in a business as a means of identifying products, business, or services and of establishing goodwill.

A tradename differs from a trademark in that it relates mainly to a business and its goodwill, while a trademark relates mainly to goods sold. Although the Trademark Act distinguishes between trademarks and tradenames by providing that tra-

denames are not entitled to registration, the protection afforded to tradenames is the same as the protection afforded to trademarks.

SERVICE MARKS

The term “service mark” under the Trademark Act includes a mark used in the sale or advertising of services to identify the services of one person and distinguish those services from the services of others. Titles, character names, and other distinctive features of radio and television programs may be registered as service marks. Moreover, entertainment services provided by individuals are among the “services” sufficient to support service mark registration. Service marks are intended to identify and afford protection to things of an intangible nature, as distinguished from the protection already provided for marks affixed to tangible goods and products. However, it is possible for a given symbol to be used in a way that it functions as both a trademark for goods and a service mark for services, and can be the object of separate registrations.

3.5.2 Use of Section 43(a) by Celebrities and Entities

Allen v. National Video, Inc., 610 F. Supp. 612 (S.D.N.Y. 1985)

MOTLEY, J.

. . . This case arises because plaintiff, to paraphrase Groucho Marx, wouldn't belong to any video club that would have him as a member. More precisely, plaintiff sues over an advertisement for defendant National Video (National) in which defendant Boroff, allegedly masquerading as plaintiff, portrays a satisfied holder of National's movie rental V.I.P. Card. Plaintiff asserts that the advertisement appropriates his face and implies his endorsement, and that it therefore violates his statutory right to privacy, his right to publicity, and the federal Lanham Act's prohibition of misleading advertising. Plaintiff, basing jurisdiction on diversity of citizenship, seeks an injunction against Boroff and defendant Smith, Boroff's agent, and damages against all defendants.

Defendants, while conceding that Boroff looks remarkably like plaintiff, deny that the advertisement appropriates plaintiff's likeness or that it poses a likelihood of consumer confusion . . .

The following facts are not in dispute. Plaintiff Woody Allen is a film director, writer, actor, and comedian. Among the films plaintiff has directed are *Annie Hall*, which won several Academy Awards, *Manhattan*, *Bananas*, *Sleeper*, *Broadway Danny Rose*, and, most recently, *The Purple Rose of Cairo*. In addition to being a critically successful artist, plaintiff has for more than 15 years been a major international celebrity. Although he has not often lent his name to commercial endeavors other than his own projects, plaintiff's many years in show business have made his name and his face familiar to millions of people. This familiarity, and plaintiff's reputation for artistic integrity, have significant, exploitable, commercial value.

The present action arises from an advertisement, placed by National to promote its nationally franchised video rental chain, containing a photograph of defendant Boroff taken on September 2, 1983. The photograph portrays a customer in a National video store, an individual in his forties, with a high forehead, tousled hair, and heavy black glasses. The customer's elbow is on the counter, and his face, bearing an expression at once quizzical and somewhat smug, is

leaning on his hand. It is not disputed that, in general, the physical features and pose are characteristic of plaintiff.

The staging of the photograph also evokes association with plaintiff. Sitting on the counter are videotape cassettes of *Annie Hall* and *Bananas*, two of plaintiff's best known films, as well as *Casablanca* and *The Maltese Falcon*. The latter two are Humphrey Bogart films of the 1940's associated with plaintiff primarily because of his play and film *Play It Again, Sam*, in which the spirit of Bogart appears to the character played by Allen and offers him romantic advice. In addition, the title *Play It Again, Sam* is a famous, although inaccurate, quotation from *Casablanca*.

The individual in the advertisement is holding up a National Video V.I.P. Card, which apparently entitles the bearer to favorable terms on movie rentals. The woman behind the counter is smiling at the customer and appears to be gasping in exaggerated excitement at the presence of a celebrity.

The photograph was used in an advertisement which appeared in the March 1984 issue of *Video Review*, a magazine published in New York and distributed in the Southern District, and in the April 1984 issue of *Take One*, an in-house publication which National distributes to its franchisers across the country. The headline on the advertisement reads "Become a V.I.P. at National Video. We'll Make You Feel Like a Star." The copy goes on to explain that holders of the V.I.P. card receive "hassle-free movie renting" and "special savings" and concludes that "you don't need a famous face to be treated to some pretty famous service."

The same photograph and headline were also used on counter cards distributed to National's franchisees. Although the advertisement that ran in *Video Review* contained a disclaimer in small print reading "Celebrity double provided by Ron Smith's Celebrity Look-Alike's, Los Angeles, Calif.," no such disclaimer appeared in the other versions of the advertisements.

None of the defendants deny that the advertisements in question were designed, placed, and authorized by defendant National, that defendant Boroff was selected and posed as he was to capitalize on his resemblance to plaintiff and to attract the attention of movie watchers, that defendants Boroff and Smith were aware of this purpose in agreeing to supply Boroff's services, and that in fact Smith and Boroff have on other occasions offered the services of Boroff, a Los Angeles-based actor and director, as a look-alike for plaintiff. Moreover, defendants do not dispute that the photograph in question was used for commercial purposes, and that plaintiff did not give his consent to the use of the photograph.

Plaintiff maintains that these undisputed facts require the court to enter summary judgment for him on his right to privacy, right of publicity, and Lanham Act claims, he urges the court to find, as a matter of law, that defendants used his picture or portrait for commercial purposes without his permission, and that the advertisements were materially misleading and likely to result in consumer confusion as to his endorsement of National's services.

Defendants insist that other disputed facts require denial of plaintiff's motion. Although defendants concede that they sought to evoke by reference plaintiff's general persona, they strenuously deny that they intended to imply that the person in the photograph was actually plaintiff or that plaintiff endorsed National. Defendants offer their own interpretation of the advertisement to support their assertion that the photograph does not depict plaintiff. According to defendants, the idea of the advertisement is that even people who are not stars are *treated*

like stars at National Video. They insist that the advertisement depicts a “Woody Allen fan,” so dedicated that he has adopted his idol’s appearance and mannerisms, who is able to live out his fantasy by receiving star treatment at National Video. The knowing viewer is supposed to be amused that the counter person actually believes that the customer is Woody Allen.

Defendants urge that this interpretation cannot be rejected as a matter of law, and that if defendant Boroff merely appeared as someone who looks like Woody Allen, but not as Woody Allen himself, then plaintiff’s rights were not violated. Defendants further seek summary judgment against plaintiff on the basis that plaintiff has offered no actual evidence that anyone was actually deceived into thinking that the photograph was of him. . . . Plaintiff rejects defendants’ explanation of the advertisement as fanciful and asserts that since all defendants knowingly participated in creating a photograph that amounts to a portrait of plaintiff to be used for advertising in a national magazine, they are all jointly and severally liable for violating plaintiff’s rights. . . .

Privacy and Publicity Claims

[Although deciding that the Lanham Act provided the appropriate remedy, the court discussed Allen’s claims under §§ 50 and 51 of the New York Civil Rights Law and held that since defendants had offered an alternative explanation for the presence of the look-alike in the ad, namely, that it was intended to portray a fan of Allen rather than Allen *himself*, unlike the situation in *Onassis*, in which the only possible explanation for the appearance of the look-alike in the ad was to suggest the real Jacqueline Kennedy Onassis, the court declined to reach this aspect of the case in deciding Allen’s motion for summary judgment.]

Lanham Act Claim

Plaintiff seeks summary judgment on his claim under section 43(a) of the federal Lanham Act, 15 U.S.C. section 1125(a) (West 1982) (“the Act”), which prohibits false descriptions of products or their origins. The Act is more than a mere codification of common law trademark infringement. Its purpose is “the protection of consumers and competitors from a wide variety of misrepresentations of products and services in commerce. In enacting the section, Congress in effect created a new federal statutory tort. The section is clearly remedial and should be broadly construed.” . . .

The Act has therefore been held to apply to situations that would not qualify formally as trademark infringement, but that involve unfair competitive practices resulting in actual or potential deception. . . . To make out a cause of action under the Act, plaintiff must establish three elements: (1) involvement of goods or services, (2) effect on interstate commerce, and (3) a false designation of origin or false description of the goods or services. . . .

Application of the act is limited, however, to potential deception which threatens economic interests analogous to those protected by trademark law. . . . One such interest is that of the public to be free from harmful deception. Another interest, which provides plaintiff here with standing, is that of the “trademark” holder in the value of his distinctive mark. . . .

A celebrity has a similar commercial investment in the “drawing power” of his or her name and face in endorsing products and in marketing a career. The celebrity’s investment depends upon the goodwill of the public, and infringement of the celebrity’s rights also implicates the public’s interest in being free from

deception when it relies on a public figure's endorsement in an advertisement. The underlying purposes of the Lanham Act therefore appear to be implicated in cases of misrepresentations regarding the endorsement of goods and services.

The Act's prohibitions, in fact, have been held to apply to misleading statements that a product or service has been endorsed by a public figure. See *Geisel v. Poynter Products, Inc.* 283 F. Supp. 261 (S.D.N.Y. 1968) [see Section 4.10, *infra.*]

In *Cher v. Forum International, Ltd.*, 213 USPQ 96 (C.D. Cal 1982), plaintiff, a popular singer and actress, brought a similar Lanham Act claim. Plaintiff sued when an interview she had granted to *US* magazine was sold to *Forum* magazine, a publication of Penthouse International. *Forum* published the interview and advertised it widely, falsely implying that plaintiff read and endorsed *Forum* and had granted the magazine an exclusive interview. *Id.* at 99–100. The court held that the Act “extends to misrepresentations in advertising as well as labelling of products and services in commerce,” *id.* at 102, and noted that no finding of an actual trademark is required under the Act. *Id.* “The Lanham Act proscribes any false designation or representation in connection with any goods or services in interstate commerce,” a standard which plaintiff Cher had met. *Id.*

Geisel and *Cher* suggest that the unauthorized use of a person's name or photograph in a manner that creates the false impression that the party has endorsed a product or service in interstate commerce violates the Lanham Act. Application of this standard to the case at bar, however, is complicated by defendants' use of a look-alike for plaintiff, rather than plaintiff's actual photograph, as in *Cher*, or pseudonym, as in *Geisel*. Unlike the state law privacy claim discussed in the foregoing section, the plaintiff's Lanham Act theory does not require the court to find that defendant Boroff's photograph is, as a matter of law, plaintiff's “portrait or picture.” The court must nevertheless decide whether defendant's advertisement creates the likelihood of consumer confusion over whether plaintiff endorsed or was otherwise involved with National Video's goods and services. . . .

This inquiry requires the court to consider whether the look-alike employed is sufficiently *similar* to plaintiff to create such a likelihood—an inquiry much like that made in cases involving similar, but not identical, trademarks. The court therefore finds it helpful, in applying the likelihood of confusion standard to the facts of this case, to refer to traditional trademark analysis.

Reference to this analysis is justified since the likelihood of confusion standard is applied to a wide variety of trademark and trademark-related causes of action. The standard is “the heart of a successful claim” under both the Lanham Act and common law trademark infringement. . . . Other cases have held that the standard is applied in state law unfair competition cases as well as in trademark cases. . . .

In *Standard and Poor's*, the Second Circuit suggested six factors for a court to consider in deciding the issue of likelihood of confusion: (1) the strength of plaintiff's marks and name; (2) the similarity of plaintiff's and defendant's marks; (3) the proximity of plaintiff's and defendant's products; (4) evidence of actual confusion as to source or sponsorship; (5) sophistication of the defendant's audience; and (6) defendant's good or bad faith, 683 F.2d at 708, 216 USPQ at 843. . . .

The first factor outlined in *Standard and Poor's*, the strength of plaintiff's mark, concerns the extent to which plaintiff has developed a favorable association for his mark in the public's mind. . . . There is no dispute that plaintiff's name and likeness are well-known to the public, and that he has built up a considerable

investment in his unique, positive public image. Plaintiff's "mark," to analogize from trademark law, is a strong one.

The similarity of the "marks"—i.e., the similarity of plaintiff to defendant Boroff—is the question posed by the second *Standard and Poor's* factor, and has already been addressed above. While the court was unable to hold that defendant Boroff's photograph was as a matter of law plaintiff's portrait or picture, the resemblance between the two is strong and not disputed.

Under the third factor, proximity of the products, the court notes that while plaintiff does not own a video rental chain, he is involved in producing and distributing his own motion pictures, and he is strongly identified with movies in the public mind. The audience at which National Video's advertisement was aimed—movie watchers—is therefore the same audience to which plaintiff's own commercial efforts are directed. There is no requirement under the Act that plaintiff and defendant actually be in competition. . . .

The court has declined to rely on plaintiff's proffered consumer survey, and plaintiff has submitted no other evidence of actual confusion. Under the fourth *Standard and Poor's* factor, such evidence, although highly probative of likelihood of confusion, is not required. . . .

The sophistication of the relevant consuming public is measured under the fifth factor. The average reader of *Video Review* or customer of National Video is likely to be comparatively sophisticated about movies, such that a good number of them arguably would realize that plaintiff did not actually appear in the photograph. This is relevant to the question of whether the advertisement contained plaintiff's "portrait or picture." However, given the close resemblance between defendant Boroff's photograph and plaintiff, there is no reason to believe that the audience's relative sophistication eliminates all likelihood of confusion; at a cursory glance, many consumers, even sophisticated ones, are likely to be confused.

The final factor is the good or bad faith of defendants. While plaintiff has not established that defendants acted intentionally to fool people into thinking that plaintiff actually appeared in the advertisement, defendants admit that they designed the advertisement intentionally to evoke an association with plaintiff. They must therefore at least have been aware of the risk of consumer confusion, which militates against a finding that their motives were completely innocent. Defendants may not have intended to imply that plaintiff actually endorsed their product, but they happily risked creating that impression in an attempt to gain commercial advantage through reference to plaintiff's public image. The failure of defendant National to include any disclaimer on all but one of the uses of the photograph also supports a finding of, at best, dubious motives.

A review of all these factors leads the court to the inescapable conclusion that defendant's use of Boroff's photograph in their advertisement creates a likelihood of consumer confusion over plaintiff's endorsement or involvement. In reaching this conclusion, the court notes several distinctions between plaintiff's Lanham Act and privacy claims which make this case more appropriate for resolution under the Lanham Act.

First and most important, the likelihood of confusion standard applied herein is broader than the strict "portrait or picture" standard under the Civil Rights Law. Evocation of plaintiff's general persona is not enough to make out a violation of section 51, but it may create a likelihood of confusion under the Lanham Act. . . .

Second, the likelihood of confusion standard is easier to satisfy on the facts of this case. Enough people may realize that the figure in the photograph is defendant Boroff to negate the conclusion that it amounts to a “portrait or picture” of plaintiff as a matter of law. All that is necessary to recover under the Act, however, is that a *likelihood* of confusion exist. While defendants, as noted above, have urged an interpretation of the advertisement which might defeat a finding of “portrait or picture,” the court finds that no such explanation can remove the likelihood of confusion on the part of “any appreciable number of ordinarily prudent” consumers. . . .

Third, although the question of identifiability under the Civil Rights Law is generally one of fact for the jury, the likelihood of confusion standard may be applied by the court. While confusing similarity is technically a question of fact, it has sometimes been regarded as “one for the court to decide through its own analysis, comparison, and judgment.” . . . It has therefore been held to be appropriate for summary adjudication. . . .

In seeking to forestall summary judgment, defendants Smith and Boroff maintain that the disclaimer which they insisted be included in the advertisement would have avoided consumer confusion. The court disagrees. Even with regard to the one version of the advertisement in which the requisite disclaimer was included, there exists a likelihood of consumer confusion. The disclaimer, in tiny print at the bottom of the page, is unlikely to be noticed by most readers as they are leafing through the magazine. Moreover, the disclaimer says only that a celebrity double is being used, which does not in and of itself necessarily dispel the impression that plaintiff is somehow involved with National’s products or services. To be effective a disclaimer would have to be bolder and make clear that plaintiff in no way endorses National, its products, or its services. . . .

Smith and Boroff also argue that they lacked sufficient control over the design of the advertisement and its placement to be jointly and severally liable to plaintiff along with National. This contention, too, is without merit. There is no dispute that defendants all knowingly agreed to include Boroff in the advertisement as a look-alike for plaintiff and that the pose and props in the photograph were intended in create an association with plaintiff. Defendants Smith and Boroff will not now be heard to plead ignorance when they intentionally created at least the risk of confusion.

The court concludes, on the undisputed facts before it, that a likelihood of consumer confusion exists in this case as a matter of law. Plaintiff’s motion for summary judgment on his Lanham Act claim therefore is granted against all defendants. The motion of defendants Smith and Boroff for summary judgment is denied.

Having established a likelihood of consumer confusion, plaintiff is entitled to injunctive relief under the Act. . . .

Defendants have argued that any injunction against them must be limited in geographical scope to New York State. While such a limitation might be required for an injunction under the New York Civil Rights Law, given the differences in privacy law among different jurisdictions, an injunction under the Lanham Act need not be so limited. Plaintiff enjoys a nationwide reputation and defendants advertised a nationally franchised business through a national magazine. The harm sought to be prevented is clearly not limited to the New York area, and the injunction must therefore be national in scope.

Plaintiff seeks an injunction preventing defendants from presenting defendant

Boroff as plaintiff in advertising. Defendant Boroff argues that any such injunction would interfere impermissibly with his ability to earn a living and his First Amendment rights.

As defendants correctly point out, the scope of injunctions against misleading commercial speech should be limited to that necessary to avoid consumer confusion. For this reason, disclaimers are favored over outright bans. . . . The court has already found, however, that the disclaimer appended to one of the advertisements before the court was inadequate as a matter of law to dispel a likelihood of consumer confusion. Nevertheless, the court hesitates sweepingly to enjoin defendant Boroff from ever appearing as a look-alike for plaintiff, since that could interfere with his ability to make money and express himself in settings where there is no likelihood of consumer confusion.

What plaintiff legitimately seeks to prevent is not simply defendant Boroff dressing up as plaintiff, but defendant *passing himself off* as plaintiff or an authorized surrogate. Therefore, defendant must be enjoined from appearing in advertising that creates the likelihood that a reasonable person might believe that he was really plaintiff or that plaintiff had approved of his appearance. . . . Defendant may satisfy the injunction by ceasing his work as a Woody Allen look-alike, but he may also satisfy it by simply refusing to collaborate with those advertisers, such as National Video in this case, who recklessly skirt the edge of misrepresentation. Defendant may sell his services as a look-alike in any setting where the overall context makes it completely clear that he *is* a look-alike and that plaintiff has nothing to do with the project—whether that is accomplished through a bold and unequivocal disclaimer, the staging of the photograph, or the accompanying advertising copy. This injunction applies as well to defendant Smith in his role as agent for Boroff. . . .

Difficult questions of law and fact are presented by plaintiff's claim that the photograph of defendant Boroff used in defendant National Video's advertisements constitutes a "portrait or picture" of Woody Allen, entitling him to relief under New York's privacy statute. The court concludes that this case is more properly regarded as one for unfair competition under the Lanham Act, and that plaintiff may gain full relief on this theory. There is no question that the advertisement in question creates at least a likelihood of consumer confusion as to whether plaintiff endorses National Video. Plaintiff therefore is entitled to summary judgment on his Lanham Act claim and an injunction against such potentially confusing use of defendant's photograph. . . .

NOTES

1. See also *Allen v. Men's World Outlet, Inc.*, 679 F. Supp. 360 (S.D.N.Y. 1988). Allen was granted an injunction against the use of an Allen look-alike in the advertising of a discount clothing retailer.

2. The issue of false implication of endorsement through the use of "look-alikes" was one of the claims raised in *Tin Pan Apple, Inc. v. Miller Brewing Co., Inc.*, 737 F. Supp. 826 (S.D.N.Y. 1990), in which the rap group The Fat Boys (who were all under legal drinking age and whose material included strong anti-drug, anti-alcohol, stay-in-school messages) sued, *inter alia*, for false designation and unfair competition under Lanham Act § 43a, unfair business practices, false advertising and unfair competition under the New York General Business Law §§ 349 et seq., and violation of plaintiffs' privacy rights under §§ 50 and 51 of the New York Civil Rights Law, as well as trade libel and disparagement. Miller had run a national TV beer ad featuring three Fat Boys look-alikes (one of whom

was comic Joe Piscopo) performing in the Fat Boys style. The Fat Boys had been approached to appear in the ad, but had refused. Plaintiffs claimed that the ad falsely represented that the Fat Boys approved of and solicited orders for alcoholic beverages, which would be contrary to their image and message, and that the ad had injured their business (including in their claims the purported loss of tour sponsorship from Coca-Cola, Inc.) Among the defenses raised in defendants' motion to dismiss was that of parody (a protected form of artistic expression which the Second Circuit had recognized in *Cliffs Notes, Inc. v. Bantam Doubleday Dell Publishing, Inc.*, 886 F.2d 490 (2d Cir. 1989), but the court rejected the claim that the ad was a permissible parody and held that plaintiffs could proceed with their Lanham Act claims as well as their claims under §§ 349 and 350 of the New York General Business Law. However, the court agreed with the defendants that "sound-alikes" did not fall afoul of the Civil Rights Law, and also agreed that the plaintiffs had failed to state claims for defamation and trade disparagement.

3. Elements of identity such as those in the Allen case also figured strongly in *Estate of Elvis Presley v. Russen*, 513 F. Supp. 1339 (D.N.J. 1981). There, preliminary injunctive relief was granted against the promoter of "THE BIG EL SHOW," a re-creation of a live Presley concert utilizing the services of an impersonator, which was advertised as "Reflections on a Legend . . . A Tribute to Elvis Presley." During his lifetime, Presley had toured under the title "Elvis In Concert," and he had utilized a unique "Elvis pose" (jumpsuit, mike in hand, apparently singing) as well as the symbols "TCB" and a lightning bolt, as well as the name "TCB" for his accompanying band. After Presley's death, his estate and the estate's licensees continued to use these indicia of identity. Although the promoter had the right to stage his show, he could not utilize the unique Presley indicia, which would tend to lead customers to believe that the show was authorized by the Estate, a false designation of origin.

4. Similarly, *NFL v. Wichita Falls Sportswear, Inc.*, 532 F. Supp. 651 (W.D.Wash. 1982) discusses extensively the Lanham Act implications of the unauthorized use of NFL team colors, jersey designs, etc.

5. The Federal Trademark Dilution Act of 1995 (104 HR 1295) may have an impact in matters of the kind discussed above. Under the Act, an injunction is available to prevent "dilution of the distinctive quality" of a "famous mark by commercial use in commerce." As is typically the case in this area, there are exemptions for fair use, non-commercial use, and all forms of news reporting and commentary. Dilution is defined as "the lessening of the capacity of a famous mark to identify and distinguish goods and services, regardless of the presence or absence of (1) competition between the owner of the famous mark and other parties, or (2) the likelihood of confusion, mistake or deception." Whether or not the mark is registered is only one of seven specific tests prescribed in the statute for determining whether a mark is "distinctive and famous," the other being the degree of inherent or acquired distinctiveness of the mark, the duration and extent of use, the duration and extent of advertising and publicity, the geographical extent of use, the channels of trade in which the mark is used, and the degree of recognition accorded the mark.

6. In addition, the "trade dress" doctrine may be helpful in an appropriate case. *Two Pesos Inc. v. Taco Cabana Inc.*, 505 U.S. 763 (1992) provided protection under Section 43a for the distinctive manner in which a product is presented. This case involved two competing chains of Mexican-style restaurants. Although the plaintiff had not established secondary meaning, the inherent distinctiveness of its trade dress was sufficient. According to Mr. Justice White, "Denying protection for inherently distinctive nonfunctional trade dress until after secondary meaning has been established would allow a competitor, which has not adopted a distinctive trade dress of its own, to appropriate the originator's dress in other markets and to deter the originator from expanding into and competing in these areas. As noted above, petitioner concedes that protecting an inherently distinctive trade dress from its inception may be critical to new entrants to the market and that withholding protection until secondary meaning has been established would be contrary to the goals

of the Lanham Act.” See Lisa I. Fried, “Trade Dress Suits Knock Knockoffs Off Store Shelf,” *National Law Journal*, 9/18/95, P. B.1.

7. Where the likelihood of confusion exists, even the use of one’s own name can be enjoined. This happened in a state action not involving the Federal Trademark Act. The proprietor of a radio and television sales and repair business in upstate New York (Edward J. Sullivan) had conducted business under the name “Ed Sullivan’s Radio & TV.” After a New York gossip columnist by the name “Ed Sullivan” became a nationally famed television variety show host, Edward J. Sullivan and others attempted to incorporate “Ed Sullivan’s Radio & TV, Inc.” Even though Edward J. Sullivan had conducted a radio (then radio and television) sales and repair business for some time, and there was no direct competition between the two Eds, the variety show host had endorsed brands of television sets. There was no indication in the businessman’s corporate name that his activities were limited to sales and repair of equipment. And the fields of activity of the two Ed Sullivans were sufficiently similar that consumers might be confused into believing that there was some relationship between them. The Appellate Division observed that “[a]lthough, in fact, but one isolated store in Buffalo is involved at the present time, nevertheless the state of facts may so change as to encompass a situation wherein there may be a series or a chain of similar stores throughout the country, in which case indeed, unless [the television star Ed Sullivan] had taken this present, prompt action, he might at a later date encounter great difficulty in obtaining an injunction because of his own laches.” Also, at this stage the corporate enterprise would suffer minimal inconvenience in dropping the diminutive prefix, a situation which might not hold true at some future time. *Sullivan v. Ed Sullivan Radio & T.V.*, 1 App.Div.2d 609, 152 N.Y.S.2d 227 (1st Dept. 1956).

3.5.3 Defensive Matters

The same balancing of interests which we saw in operation in the areas of defamation, privacy, and publicity is also encountered in cases involving Section 43a and other areas of trademarks and service marks. As we see in the following cases, artistic considerations are often invoked to justify name uses that in other contexts would probably be impermissible. In addition, as we see in the decision in *Pump, Inc. v. Collins*, there are some instances in which the junior of two marks will prevail.

Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989)

JON O. NEWMAN, CIRCUIT JUDGE

Appellant Ginger Rogers and the late Fred Astaire are among the most famous duos in show business history. Through their incomparable performances in Hollywood musicals, Ginger Rogers and Fred Astaire established themselves as paragons of style, elegance, and grace. A testament to their international recognition, and a key circumstance in this case, is the fact that Rogers and Astaire are among that small elite of the entertainment world whose identities are readily called to mind by just their first names, particularly the pairing “Ginger and Fred.” This appeal presents a conflict between Rogers’ right to protect her celebrated name and the right of others to express themselves freely in their own artistic work. Specifically, we must decide whether Rogers can prevent the use of the title “Ginger and Fred” for a fictional movie that only obliquely relates to Rogers and Astaire.

Rogers appeals from an order of the District Court for the Southern District of New York (Robert W. Sweet, Judge) dismissing on summary judgment her claims that defendants-appellees Alberto Grimaldi, MGM/UA Entertainment Co.,

and PEA Produzioni Europee Associate, S.R.L., producers and distributors of the motion picture “Ginger and Fred,” violated the Lanham Act, 15 U.S.C. § 1125(a) (1982), and infringed her common law rights of publicity and privacy. *Rogers v. Grimaldi*, 695 F. Supp. 112 (S.D.N.Y.1988). Although we disagree with some of the reasoning of the District Court, we affirm.

Background

Appellant Rogers has been an international celebrity for more than fifty years. In 1940, she won an Academy Award for her performance in the motion picture “Kitty Foyle.” Her principal fame was established in a series of motion pictures in which she co-starred with Fred Astaire in the 1930s and 1940s, including “Top Hat” and “The Barkleys of Broadway.”

There can be no dispute that Rogers’ name has enormous drawing power in the entertainment world. Rogers has also used her name once for a commercial enterprise other than her show business career. In the mid-1970s, she licensed J. C. Penney, Inc. to produce a line of GINGER ROGERS lingerie. Rogers is also writing her autobiography, which she hopes to publish and possibly sell for adaptation as a movie.

In March 1986, appellees produced and distributed in the United States and Europe a film entitled “Ginger and Fred,” created and directed by famed Italian film-maker Federico Fellini. The film tells the story of two fictional Italian cabaret performers, Pippo and Amelia, who, in their heyday, imitated Rogers and Astaire and became known in Italy as “Ginger and Fred.” The film focuses on a televised reunion of Pippo and Amelia, many years after their retirement. Appellees describe the film as the bittersweet story of these two fictional dancers and as a satire of contemporary television variety shows.

The film received mixed reviews and played only briefly in its first run in the United States. Shortly after distribution of the film began, Rogers brought this suit, seeking permanent injunctive relief and money damages. Her complaint alleged that the defendants (1) violated section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), by creating the false impression that the film was about her or that she sponsored, endorsed, or was otherwise involved in the film, (2) violated her common law right of publicity, and (3) defamed her and violated her right to privacy by depicting her in a false light.

After two years of discovery, the defendants moved for summary judgment. In opposition to the motion, Rogers submitted a market research survey purporting to establish that the title “Ginger and Fred” misled potential movie viewers as to Rogers’ connection with the film. Rogers also provided anecdotal evidence of confusion, including the fact that when MGM/UA publicists first heard the film’s title (and before they saw the movie), they began gathering old photographs of Rogers and Astaire for possible use in an advertising campaign.

The District Court granted summary judgment to the defendants. Judge Sweet found that defendants’ use of Rogers’ first name in the title and screenplay of the film was an exercise of artistic expression rather than commercial speech. 695 F. Supp. at 120. He then held that “[b]ecause the speech at issue here is not primarily intended to serve a commercial purpose, the prohibitions of the Lanham Act do not apply, and the Film is entitled to the full scope of protection under the First Amendment.” *Id.* at 120–21. The District Judge also held that First Amendment concerns barred Rogers’ state law right of publicity claim. *Id.* at 124. He also rejected Rogers’ “false light” claim without elaboration.

Discussion

I. Lanham Act. . . .

The District Court ruled that because of First Amendment concerns, the Lanham Act cannot apply to the title of a motion picture where the title is “within the realm of artistic expression,” 695 F. Supp. at 120, and is not “primarily intended to serve a commercial purpose,” *id.* at 121. Use of the title “Ginger and Fred” did not violate the Act, the Court concluded, because of the undisputed artistic relevance of the title to the content of the film. *Id.* at 120. In effect, the District Court’s ruling would create a nearly absolute privilege for movie titles, insulating them from Lanham Act claims as long as the film itself is an artistic work, and the title is relevant to the film’s content. We think that approach unduly narrows the scope of the Act.

Movies, plays, books, and songs are all indisputably works of artistic expression and deserve protection. Nonetheless, they are also sold in the commercial marketplace like other more utilitarian products, making the danger of consumer deception a legitimate concern that warrants some government regulation. . . . Poetic license is not without limits. The purchaser of a book, like the purchaser of a can of peas, has a right not to be misled as to the source of the product. Thus, it is well established that where the title of a movie or a book has acquired secondary meaning—that is, where the title is sufficiently well known that consumers associate it with a particular author’s work—the holder of the rights to that title may prevent the use of the same or confusingly similar titles by other authors. . . . Indeed, it would be ironic if, in the name of the First Amendment, courts did not recognize the right of authors to protect titles of their creative work against infringement by other authors. . . .

Though First Amendment concerns do not insulate titles of artistic works from all Lanham Act claims, such concerns must nonetheless inform our consideration of the scope of the Act as applied to claims involving such titles. Titles, like the artistic works they identify, are of a hybrid nature, combining artistic expression and commercial promotion. The title of a movie may be both an integral element of the filmmaker’s expression as well as a significant means of marketing the film to the public. The artistic and commercial elements of titles are inextricably intertwined. Film-makers and authors frequently rely on word-play, ambiguity, irony, and allusion in titling their works. Furthermore, their interest in freedom of artistic expression is shared by their audience. The subtleties of a title can enrich a reader’s or a viewer’s understanding of a work. Consumers of artistic works thus have a dual interest. They have an interest in not being misled and they also have an interest in enjoying the results of the author’s freedom of expression. For all these reasons, the expressive element of titles requires more protection than the labeling of ordinary commercial products.

Because overextension of Lanham Act restrictions in the area of titles might intrude on First Amendment values, we must construe the Act narrowly to avoid such a conflict. . . .

Rogers contends that First Amendment concerns are implicated only where a title is so intimately related to the subject matter of a work that the author has no alternative means of expressing what the work is about. This “no alternative avenues of communication” standard derives from *Lloyd Corp. v. Tanner*, 407 U.S. 551, 566, 67, 92, S.Ct. 2219, 2227–28, 33 L.Ed.2d F. (1972), and has been applied by several courts in the trademark context. . . .

In the context of titles, this “no alternative” standard provides insufficient leeway for literary expression. In *Lloyd*, the issue was whether the First Amendment provided war protesters with the right to distribute leaflets on a shopping center owner’s property. The Supreme Court held that it did not. But a restriction on the *location* of a speech is different from a restriction on the *words* the speaker may use. . . . As the Supreme Court has noted, albeit in a different context, “[W]e cannot indulge the facile assumption that one can forbid particular words without running a substantial risk of suppressing ideas in the process.” *Cohen v. California*, 403 U.S. 15, 26, 91 S.Ct. 1780, 1788, 29 L.Ed.2d 284 (1971). (This Circuit employed the “no alternative avenues of communication” standard in *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979). As we stated in *Silverman*, however, that case involved a pornographic movie with blatantly false advertising, 870 F.2d at 48 n. 5. Advertisements for the movie were explicitly misleading, stating that the principal actress in the movie was a former Dallas Cowboys’ cheerleader. We do not read *Dallas Cowboys Cheerleaders* as generally precluding all consideration of First Amendment concerns whenever an allegedly infringing author has “alternative avenues of communication.” [Note in original])

Thus, the “no alternative avenues” test does not sufficiently accommodate the public’s interest in free expression, while the District Court’s rule—that the Lanham Act is inapplicable to all titles that can be considered artistic expression—does not sufficiently protect the public against flagrant deception. We believe that in general the Act should be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression. In the context of allegedly misleading titles using a celebrity’s name, that balance will normally not support application of the Act unless the title has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work. (This limiting construction would not apply to misleading titles that are confusingly similar to other titles. The public interest in sparing consumers this type of confusion outweighs the slight public interest in permitting authors to use such titles. [Note in original])

The reasons for striking the balance in this manner require some explanation. A misleading title with no artistic relevance cannot be sufficiently justified by a free expression interest. For example, if a film-maker placed the title “Ginger and Fred” on a film to which it had no artistic relevance at all, the arguably misleading suggestions as to source or content implicitly conveyed by the title could be found to violate the Lanham Act as to such a film.

Even where a title surpassed the appropriately low threshold of minimal artistic relevance but was explicitly misleading as to source or content, a violation could be found. To illustrate, some titles—such as “Nimmer on Copyright” and “Jane Fonda’s Workout Book”—explicitly state the author of the work or at least the name of the person the publisher is entitled to associate with the preparation of the work. Other titles contain words explicitly signifying endorsement, such as the phrase in a subtitle “an authorized biography.” If such explicit references were used in a title and were false as applied to the underlying work, the consumer’s interest in avoiding deception would warrant application of the Lanham Act, even if the title had some relevance to the work.

Many titles, however, include a well-known name without any overt indication of authorship or endorsement—for example, the hit song “Bette Davis Eyes,”

and the recent film “Come Back to the Five and Dime, Jimmy Dean, Jimmy Dean.” To some people, these titles might implicitly suggest that the named celebrity had endorsed the work or had a role in producing it. Even if that suggestion is false, the title is artistically relevant to the work. In these circumstances, the slight risk that such use of a celebrity’s name might implicitly suggest endorsement or sponsorship to some people is outweighed by the danger of restricting artistic expression, and the Lanham Act is not applicable. . . .

Similarly, titles with at least minimal artistic relevance to the work may include explicit statements about the content of the work that are seriously misleading. For example, if the characters in the film in this case had published their memoirs under the title “The True Life Story of Ginger and Fred,” and if the film-maker had then used that fictitious book title as the title of the film, the Lanham Act could be applicable to such an explicitly misleading description of content. But many titles with a celebrity’s name make no explicit statement that the work is about that person in any direct sense; the relevance of the title may be oblique and may become clear only after viewing or reading the work. As to such titles, the consumer interest in avoiding deception is too slight to warrant application of the Lanham Act. Though consumers frequently look to the title of a work to determine what it is about, they do not regard titles of artistic works in the same way as the names of ordinary commercial products. Since consumers expect an ordinary product to be what the name says it is, we apply the Lanham Act with some rigor to prohibit names that misdescribe such goods. . . . But most consumers are well aware that they cannot judge a book solely by its title any more than by its cover. We therefore need not interpret the Act to require that authors select titles that unambiguously describe what the work is about nor to preclude them from using titles that are only suggestive of some topics that the work is not about. Where a title with at least some artistic relevance to the work is not explicitly misleading as to the content of the work, it is not false advertising under the Lanham Act.

This construction of the Lanham Act accommodates consumer and artistic interests. It insulates from restriction titles with at least minimal artistic relevance that are ambiguous or only implicitly misleading but leaves vulnerable to claims of deception titles that are explicitly misleading as to source or content, or that have no artistic relevance at all.

With this approach in mind, we now consider Rogers’ Lanham Act claim to determine whether appellees are entitled to summary judgment. . . .

Rogers essentially claims that the title “Ginger and Fred” is false advertising. Relying on her survey data, anecdotal evidence, and the title itself, she claims there is a likelihood of confusion that (1) Rogers produced, endorsed, sponsored, or approved the film, and/or (2) the film is about Rogers and Astaire, and that these contentions present triable issues of fact. In assessing the sufficiency of these claims, we accept Judge Sweet’s conclusion, which is not subject to dispute, that the title “Ginger and Fred” surpasses the minimum threshold of artistic relevance to the film’s content. The central characters in the film are nicknamed “Ginger” and “Fred,” and these names are not arbitrarily chosen just to exploit the publicity value of their real life counterparts but instead have genuine relevance to the film’s story. We consider separately the claims of confusion as to sponsorship and content.

The title “Ginger and Fred” contains no explicit indication that Rogers endorsed the film or had a role in producing it. The survey evidence, even if its

validity is assumed, indicates at most that some members of the public would draw the incorrect inference that Rogers had some involvement with the film. But that risk of misunderstanding, not engendered by any overt claim in the title, is so outweighed by the interests in artistic expression as to preclude application of the Lanham Act. We therefore hold that the sponsorship and endorsement aspects of Rogers' Lanham Act claim raise no "genuine" issue that requires submission to a jury. (The survey sampled 201 people who said they were likely to go to a movie in the next six months. Half of those surveyed were shown a card with the title "Ginger and Fred" on it; the other half were shown an actual advertisement for the movie. Of these 201, 38 percent responded "yes" to the question: "Do you think that the actress, Ginger Rogers, had anything to do with this film, or not?" Of these respondents, a third answered yes to the question: "Do you think Ginger Rogers was involved in any way with making this film or not?" In other words, about 14 percent of the total 201 surveyed found that the title suggested that Rogers was involved in making the film.

(Appellees contend that the survey used "leading" questions, making the survey results invalid. Without resolving this issue, we will assume for the purposes of this appeal that the survey was valid. [Note in original])

Rogers' claim that the title misleads consumers into thinking that the film is *about* her and Astaire also fails. Indeed, this case well illustrates the need for caution in applying the Lanham Act to titles alleged to mislead as to content. As both the survey and the evidence of the actual confusion among the movie's publicists show, there is no doubt a risk that some people looking at the title "Ginger and Fred" might think the film was about Rogers and Astaire in a direct, biographical sense. For those gaining that impression, the title is misleading. At the same time, the title is entirely truthful as to its content in referring to the film's fictional protagonists who are known to their Italian audience as "Ginger and Fred." Moreover, the title has an ironic meaning that is relevant to the film's content. As Fellini explains in an affidavit, Rogers and Astaire are to him "a glamorous and care-free symbol of what American cinema represented during the harsh times which Italy experienced in the 1930s and 1940s." In the film, he contrasts this elegance and class to the gaudiness and banality of contemporary television, which he satirizes. In this sense, the title is not misleading; on the contrary, it is an integral element of the film and the film-maker's artistic expressions.

This mixture of meanings, with the possibly misleading meaning not the result of explicit misstatement, precludes a Lanham Act claim for false description of content in this case. To the extent that there is a risk that the title will mislead some consumers as to what the work is about, that risk is outweighed by the danger that suppressing an artistically relevant though ambiguous title will unduly restrict expression.

For these reasons, we hold that appellees are entitled to summary judgment on Rogers' claim that the title gives the false impression that the film is about Rogers & Astaire. . . .

B. False-Light Defamation

Rogers claims that the film portrays her in a false light by depicting the dance pair in the film in a tawdry and "seedy" manner. . . . We need not dwell long on this claim, nor need we decide which state's law governs it. The film is manifestly

not about Rogers. It is about a pair of fictional characters who are like Rogers and Astaire only in their imagination and in the sentimental eyes of their fictional audience. We know of no state law that provides relief for false-light defamation against a work that clearly does not portray the plaintiff at all.

Conclusion

In sum, we hold that section 43(a) of the Lanham Act does not bar a minimally relevant use of a celebrity's name in the title of an artistic work where the title does not explicitly denote authorship, sponsorship, or endorsement by the celebrity or explicitly mislead as to content. . . . Under these standards, summary judgment was properly entered on the undisputed facts of this case, rejecting the Lanham Act . . . as well as the claim for false-light defamation.

We therefore affirm the judgment of the District Court.

GRIESA, DISTRICT JUDGE, concurring in the result:

I concur with the result reached in the majority opinion, but have substantial disagreement with the opinion otherwise.

At the outset, a brief word about the development of the issues is in order.

The original claim of Rogers, as stated in the complaint, did not have any separate allegation about the title of the film as such. The complaint was directed against "the Film." The first cause of action, claiming violation of Rogers' right of publicity, was directed against the production and distribution of the Film. The second alleged that the Film depicted Rogers in a false light. The third cause of action, under the Lanham Act, was directed against the Film and its advertising. In her submissions on the summary judgment motion, Rogers focused mainly on the alleged wrongdoing of defendants in entitling the Film and in promoting and advertising the Film.

Judge Sweet's opinion treated the issue as relating to "the Film's title and screenplay." He discussed promotion and advertising, but not as a significant separate claim. His holding was that the Film (including the title and the screenplay) is entitled to First Amendment protection and does not violate the Lanham Act or state law rules.

On appeal, the only issues raised by Rogers relate to the title and to the advertising and promotion. No claim is made regarding the screenplay. The only issue dealt with in the majority opinion is that relating to the title. I have no objection to this feature of the majority opinion. My objection is to how the issue is handled.

Lanham Act

According to the majority, Judge Sweet's Lanham Act ruling creates a broad immunity which would prevent a remedy in instances of "flagrant deception." To deal with this problem, the majority attempts to set out more precise standards by which lawful titles are to be differentiated from unlawful ones. It is said that the Lanham Act

. . . should be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression.

To implement this vague and fluid test, the majority goes on to articulate two specific rules. *First*, titles which are artistically relevant to an underlying work but are "explicitly misleading" violate the Lanham Act. *Second*, titles which are

artistically relevant but “ambiguous or only implicitly misleading” do not violate the Lanham Act.

I do not believe that anything in Judge Sweet’s opinion, sensibly read, would interfere with the protection of the public against “flagrant deception.” But whatever may be the problem with Judge Sweet’s opinion, the cure offered by the majority is far worse than the ailment.

Judge Sweet’s reasoning can be briefly summarized as follows. Since the two main characters of the Film, Pippo and Amelia, are depicted as having made their living by imitating Ginger Rogers and Fred Astaire, there is, in a unique but entirely lawful manner, a reference to Ginger Rogers in the Film. The name “Ginger” is relevant to both the Film’s screenplay and its title. The screenplay and title are within the realm of artistic expression, and are thus entitled to an appropriately broad measure of protection under the First Amendment, a level of protection greater than would be accorded if this were commercial speech. The possibility that alternate avenues of expression might have been used does not create a valid Lanham Act claim. The judge noted that there is nothing in the record to suggest an intention to use Ginger Rogers’ name to deceive the public into coming to the movie under the mistaken belief that it was about the true Rogers and Astaire. 695 F.Supp. 113, 120–21.

The essential points of Judge Sweet’s rationale are echoed in the majority opinion, which states that the title “is an integral element of the film and the film-maker’s artistic expression,” and that “the expressive element of titles requires more protection than the labeling of ordinary commercial products.” However, the majority opinion expresses the concern that the district court’s ruling would create “a nearly absolute privilege for movie titles,” because of what are thought to be broad statements about the First Amendment protection accorded to artistic speech as distinct from commercial speech.

In my view, this concern is unfounded. Judge Sweet’s discussion of First Amendment protection for artistic expression was his basis for deciding *this case*. He did not purport to write a treatise or attempt to say how various other cases with different facts should be treated. This is not to say that the ruling would not, justifiably, have some general precedential effect. It is undoubtedly true that most titles which are artistically relevant to the underlying work would be protected under the First Amendment from Lanham Act claims. However, Judge Sweet did not purport to write the law covering all possible situations.

The problem of an overly expansive ruling really lies with the majority opinion and its unfortunate attempt to establish a rule based on the asserted difference between explicitly misleading titles and those which are ambiguous or only implicitly misleading.

All the judges involved here agree that the title “Ginger and Fred” does not violate the Lanham Act. Although the title may mean different things to different people, the artistic relationship between the title and the Film protects both from the strictures of the statute.

However, this unique case would seem to be an inappropriate vehicle for fashioning a general rule of the kind announced by the majority. The unusual circumstances here do not provide a valid illustration of the general proposition (which I regard as dubious indeed) that there is a legal boundary between implicitly misleading titles and explicitly misleading ones. The majority opinion does not use the facts of this case to define the asserted distinction, but seeks to

give substance to the announced rule through the use of certain hypothetical examples.

The majority attempts to give illustrations of titles which would be artistically relevant but explicitly misleading. It is said that if the titles “Nimmer on Copyright” and “Jane Fonda’s Work-out Book” were used in a manner which was “false as applied to the underlying work” there would be liability under the Lanham Act. But these examples really go nowhere. It is not specified what the underlying works would be where such titles would be false but “artistically relevant.” The simple fact is that if either of these titles was used in connection with some bogus work, it would be a simple case of the copying of a legally protected title. . . . Thus the illustrations have nothing whatever to do with the kind of problem under discussion here.

The majority opinion states that, in the present case, the title would have been explicitly misleading if it had been “The True Life Story of Ginger and Fred.” Of course, this awkward assemblage could hardly be expected to come under the consideration of a director such as Fellini. If, by some strange circumstance, it had been used, and if the majority opinion’s legal doctrine were applied to it, lawyers might debate extensively about whether it was indeed misleading, and if so, whether it fell into the explicit or the implicit category. But the fact is that the example does not pose a realistic legal problem.

Coming to the other branch of the rule created by the majority, the opinion attempts to give illustrations of titles which would be artistically relevant and implicitly misleading—*i.e.*, which “impliedly suggest that the named celebrity had endorsed the work or had a role in producing it.” The examples given are the song “Bette Davis Eyes” and the film “Come Back to the Five and Dime, Jimmy Dean, Jimmy Dean.” But these examples in no way illustrate the majority’s proposition. No one can seriously think that these titles imply or suggest that Bette Davis or James Dean endorsed or had a role in producing the song or the film.

In my view, the rule of the majority opinion, involving the two purported categories, is not well founded. It should be left to future courts, dealing with real cases, to determine if there are to be exceptions to the First Amendment protection which would seem to be generally afforded to artistically relevant titles. To say the least, the hypotheticals in the majority opinion are a poor basis for arriving at serious legal propositions. When and if an actual case arises, it may not fit within either of the categories posited by the majority. Also, it is most likely that the distinction between explicitly and implicitly misleading titles will prove to be unsound and unworkable. . . .

NOTES

1. This decision was followed in *Rosa Parks v. LaFace Records*, 76 F. Supp. 2d 775 (E.D. Mich. 1999) (Hackett, J.). A group recording artist named Outkast released an album which included a song entitled “Rosa Parks.” Ms. Parks, of course, is justly revered as the woman who dramatized and energized the civil rights movement by refusing to move to the rear of a public bus in Birmingham, Alabama, in 1963. While Outkast’s song was entitled “Rosa Parks,” and included the line “Ah, ha, hush that fuss. Everybody move to the back of the bus,” the song was not about Ms. Parks. The album and the song were released to great acclaim, and the song received a Grammy nomination. Ms. Parks objected to the use of her name in association with music that contained, according to Ms. Parks, “profanity, racial slurs, and derogatory language directed at women.” Nevertheless, Dis-

trict Judge Barbara K. Hackett granted defendants' motion for summary judgment, according First Amendment protection because "the song at issue makes unmistakable reference to [Ms. Parks'] symbolic act a total of ten times" and the use of Ms. Parks' name and the quoted phrase is "metaphoric and symbolic."

2. A service mark infringement action was brought by the operator of a karate instruction school, who asserted he had been known as the "Karate Kid" for years. He objected to the use of the appellation in the title to the movie, *Karate Kid*, and its two sequels. He also alleged violation of his right of publicity under the New York Civil Rights statute. In *DeClemente v. Columbia Pictures Industries*, 860 F. Supp. 30 (E.D.N.Y. 1994), the court held that the use of the name in the title of the movie did not infringe plaintiff's registered service mark. The court also dismissed the plaintiff's right of publicity claim, noting that New York does not recognize a common law right and the New York statute does not protect nicknames (see Sec. 3.3.3.).

Trademark registration does not automatically foreclose others from using a trade name, nor does prior use always equate with "seniority." As we see in the following cases, the realities of the marketplace have a great deal of relevance. Although the court in *Pump, Inc. v. Collins Management* performs an analysis similar to that undertaken by the court in *Allen v. National Video*, the outcome is opposite to that in the *Allen* case.

Pump, Inc. v. Collins Management, 746 F. Supp. 1159 (D. Mass. 1990)

YOUNG, J.

[The Court granted defendants' motion to dismiss in a service mark infringement case. Pump, Inc. had registered a mark for a musical group consisting of the word "Pump" resting on what appeared to be a barbell. "Pump" stood for "Promoting Unlimited Mind Power," and the device appeared on all promotional materials associated with the band.] . . . The alleged purpose of the band Pump is to promote physical self-improvement as an alternative to drugs, thereby providing a positive role model for today's youth. . . . The four original members of the band were all bodybuilders.

The band Pump has played several concerts . . . at high schools in Massachusetts, Rhode Island and Connecticut. . . .

The band has released two singles promoting an anti-drug message, "Cracked" and "White Line Fever." "Cracked" received radio airplay on radio station WHJY in Providence, Rhode Island in May of 1987.

The band Pump also recorded a version and made a video of Elvis Costello's song "Pump It Up." It filmed videos for "Cracked" and "White Line Fever" in March 1987. The filming of Pump's videos was the subject of a front-page article in the March 21, 1987 edition of the North Attleboro *Sun Chronicle*, as well as a piece on the local Channel 6 evening news. Pump, Inc. sent its three videos, along with footage of interviews with the band, to cable television networks, including [MTV] and Colony Interconnect and the local North Attleboro station Visioncable. The videos were subsequently aired on Visioncable and . . . Colony Interconnect.

Through its then-manager . . . the band Pump mailed letters to over 200 corporations seeking corporation sponsors. No corporation agreed to sponsor the band, although several sent acknowledgment letters. Pump, Inc. did, however, receive letters of recognition supporting its anti-drug stance from former First

Lady Nancy Reagan, Arnold Schwarzenegger, Kathleen Sullivan of CBS, and former Boston Celtics player M. L. Carr.

The band Pump was inactive from mid-1988 until shortly after the initiation of this lawsuit. [The current manager] was in California during August and September, 1989, attempting without success to promote the band. On December 19, 1989, Pump performed live at Alhambra in Westport, Massachusetts and was paid \$1,000.

Pump, Inc. has never turned a profit [despite \$70,000 in promotional expenditures, \$20,000 in the year preceding the action. The band has been re-formed] with five new musicians, none of whom are bodybuilders . . . [and] is currently seeking a record contract [which it does not presently have], and, to this end, it has retained the services of an attorney. . . .

Aerosmith is a world-famous rock band that has sold millions of albums worldwide since the early 1970s. . . . Aerosmith's songs and videos have been repeatedly played and shown throughout the country. Its concerts routinely sell out large arenas at home and abroad. . . .

On September 12, 1989, Aerosmith released to considerable publicity its latest album, entitled "Pump." The album has already sold over 1,800,000 copies in the United States and 600,000 copies abroad, earning it "platinum" honors in the record industry. Its first two single cuts, "Love In An Elevator" and "Janie's Got A Gun," have become hits.

The cover of the Aerosmith "Pump" album portrays one pickup truck driving up on top of another pickup truck from behind. Written on the door of the truck on top, in prominent white capital letters, is the word "Pump." The registered Aerosmith logo is also featured prominently on the cover. A recent readers' poll in *Rolling Stone* magazine named the "Pump" cover as one of America's "Best Album Covers" during 1989. . . .

As is customary practice in the music industry, Aerosmith has promoted its current tour as "the Pump tour." . . .

There has been recent publicity that Aerosmith's members have given up drugs and have been placing more attention on physical fitness. On an MTV special . . . [a] band member . . . responded to a reporter's question "Why is the album entitled Pump?" with the comment, "Now that we're off drugs we're all pumped up." . . .

The band Pump and Aerosmith both appeal to predominantly teenage audiences aged 15–24 but even though the members of Aerosmith live near Norton, Massachusetts, where Pump, Inc. is domiciled, there is no evidence that Aerosmith was aware of the band Pump's existence before the institution of this lawsuit. . . .

[The leader of the band Pump] first learned of the existence of the Aerosmith "Pump" album in mid-September when four acquaintances of his—including the vocalist who had earlier sung background vocals for the band Pump on the song "Pumped"—informed him of the new release and asked him if he was associated with Aerosmith [which he denied.] None of the four mistakenly thought that the album was a release of the band Pump; all were aware that the recording was an Aerosmith album. No non-acquaintance has expressed any confusion. . . .

In the "normal" infringement case, a large, well-established senior user seeks to prevent a lesser-known junior user from trading off her business goodwill. . . .

Here, it borders on ridiculous to argue, as counsel for Pump, Inc. did at oral argument, that Aerosmith adopted the name "Pump" in the hope that purchasers

would mistake its album for one of the band Pump. A world-famous group such as Aerosmith, enjoying a strong base of loyal teenage support, would have absolutely no reason for stealing the name of an unknown band to sell its records. Indeed, such action would be irrational. The Aerosmith name sells well enough on its own.

Rather, Pump's best argument is reverse confusion—that in the future, anyone who hears of the band Pump, or buys a Pump record will think that the band is sponsored by or affiliated with Aerosmith. In more general terms, this is the case of a little-known senior user being infringed by a more powerful junior user. Given Aerosmith's notoriety, its actions in releasing and promoting the album "Pump" have effectively robbed Pump, Inc. of the ability to use its service mark and have rendered the plaintiff's mark devoid of independent value. Aerosmith has preempted the market with regard to the term "pump." Any time the plaintiff seeks to promote itself by reference to "Pump," consumers will think of Aerosmith first.

In support of its allegations of reverse confusion, Pump, Inc. refers the Court to *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 408 F. Supp. 1219 (D. Colo. 1976), *aff'd*, 561 F.2d 1365 (10th Cir. 1977). . . . In that case, the plaintiff alleged that Goodyear infringed on its trademark "BIG FOOT" for automobile tires by promoting and marketing a custom polysteel radial tire under the name, "BIGFOOT." Goodyear apparently came up with the name "BIGFOOT" innocently enough, but was informed of the plaintiff's "BIG FOOT" tire a month before it instituted a massive nationwide multi-media advertising campaign. When negotiations between the parties failed, Goodyear went ahead with its planned promotion efforts spending millions of dollars and literally flooding the market. Actual instances of confusion between "BIG FOOT" and "BIGFOOT" tires resulted, with some consumers even believing, mistakenly, that Big O was trading off Goodyear's goodwill—not vice versa. The district court ruled in favor of the smaller and weaker Big O. . . .

[W]hether the confusion alleged by the plaintiff is forward or reverse[, however], likelihood of confusion must still be established. . . .

The First Circuit has identified eight factors that must be weighed in assessing likelihood of confusion: (1) the similarity of the service marks; (2) the similarity of the goods; (3) the relationship between the parties' channels of trade; (4) the relationship between the parties' advertising; (5) the classes of prospective purchasers; (6) evidence of actual confusion; (7) the defendant's intent in adopting its mark; and (8) the strength of the plaintiff's mark . . .

1. *Similarity of the Marks . . .*

Pump, Inc.'s entire case is premised on the similarity between the name of plaintiff's band and the title of the latest Aerosmith Album. Indeed, both use the word "Pump" prominently, spelled in an identical manner. But the designs differ greatly. . . .

While "phonetically identical," the two marks are used in different contexts and with different visual displays . . .

The presence of the Aerosmith logo in conjunction with the "Pump" name would therefore seem to render any similarity between the marks inconsequential. The Court, however, is mindful of its duty to consider the evidence in a light most favorable to Pump, Inc. So doing, the Court cannot for purposes of this review state that the two marks are dissimilar. . . . This similarity, though, is

tenuous, based solely on the use of the same word. Alone, it does not mandate a finding of likelihood of confusion.

2. *Similarity of the Goods*

The parties offer the same services (“goods”) to the public—musical entertainment. Aerosmith, however, points out that while they use the term “Pump” as the title of an album, the plaintiff uses it as the name of a band. True, this is the primary use of the mark by Pump, Inc., but this is not its sole use. Pump, Inc. also uses its service mark on T-shirts and cassettes that it has sold at its high-school concerts [as well as on its singles and videos.] In short, Pump, Inc. uses its mark “Pump” in the same manner as Aerosmith uses its registered mark “Aerosmith”—to promote and identify the band and its recordings. Aerosmith’s argument to the contrary ignores the fact that both parties use the term “Pump” to promote a wide array of goods and services associated with musical entertainment. . . .

3. *Channels of Trade, Advertising and Prospective Purchasers*

Aerosmith argues vehemently that the parties do not have the same channels. . . . They assert that Pump, Inc. is a gimmick group of singing bodybuilders that have an audience limited to persons interested in bodybuilding, whereas Aerosmith is an internationally known and popular band with widespread audience appeal.

These factors, however, cut in favor of Pump, Inc. as well. The differences between the parties are of degree, not of kind. The Court is already familiar with Aerosmith’s music and has listened carefully to the tape supplied by Pump, Inc. Accordingly, even a tone deaf middle-aged judge whose musical tastes incline toward folk melodies can here rule confidently that both the band Pump and Aerosmith are rock groups playing roughly similar kinds of music. Aerosmith, moreover, depends on music store sales, radio and video royalties, and live concert proceeds for its profits. Pump, Inc. seeks precisely this—which is why it has attempted to obtain a recording contract. Both bands either advertise, or intend to advertise through posters, T-shirts, jewelry and media exposure. Finally, both have a nearly identical class of prospective purchasers: young persons who enjoy rock music. . . .

Viewing the evidence favorably to Pump, Inc., it satisfies this standard. A contrary ruling would, in effect, insulate better known, more successful parties from challenge whenever they attempt to steal names or ideas from unknown parties with limited market strength. Consequently, these factors favor Pump, Inc.

4. *Evidence of Actual Confusion . . .*

Pump, Inc. has presented four affidavits as proof of actual confusion. . . . The four allegedly confused persons give, interestingly, nearly identical accounts. [Two] saw displays of the Aersomith “Pump” album in record stores; [two] heard of the album on the radio. Each alleges that he or she was confused as to the association of the band Pump with the “Pump” album and enquired . . . as to any affiliation [and was informed] that there was no connection whatsoever.

Several considerations weigh against a finding of actual confusion in this case. First, each of the four admitted that he or she was aware that the “Pump” album was an Aerosmith album. . . .

Second, the mere inquiries [to the Pump, Inc. leader] as to any affiliation between Aerosmith and the band Pump, while relevant, is insufficient evidence of actual confusion . . .

Third, each of the four persons is a friend or acquaintance of [the leader. One,] for example, sang background vocals in recording the song “Pumped.” . . .

There is not a shred of evidence in the record that anyone unaffiliated with [the leader] or Pump, Inc. was confused by the appearance of the Aerosmith album—either that Aerosmith’s album was in fact the band Pump’s or that Pump, Inc. was now working with Aerosmith to promote an anti-drug message. There is simply no evidence that anyone ever bought the Aerosmith album thinking it came from the band Pump.

This factor favors Aerosmith.

5. *Aerosmith’s Intent in Adopting the Mark*

Pump, Inc. has presented no evidence that Aerosmith intentionally appropriated the plaintiff’s mark “Pump.” Nor has it presented evidence that any of the defendants were even aware of the band Pump’s existence before the filing of this lawsuit. The closest that Pump, Inc. comes in this regard is a rather cryptic allegation that the individual members of Aerosmith live “within a seven mile radius of Norton, Massachusetts,” where Pump, Inc. has its headquarters.

Even if true, this inference upon inference does not demonstrate bad faith.

6. *Strength of the Plaintiff’s Mark*

“‘Strong’ marks are accorded broader protection against infringement than are ‘weak’ marks.”

The First Circuit has looked to the following factors in determining the strength of a plaintiff’s mark: (1) the length of time it has been used and the plaintiff’s renown in its field; (2) the strength of the mark in the field; and (3) the plaintiff’s actions in promoting its mark.

Judged against these factors, the mark of Pump, Inc. is extremely weak. Giving Pump, Inc. every benefit of the doubt, the mark has only been in use since early 1987, and the band’s failure to get a record contract indicates that neither it nor the mark is well-known in the music industry. Certainly Pump, Inc. has pointed to no evidence to the contrary. Until December 19, 1989, the band’s only concerts—totalling at most twenty—were at local high schools as part of anti-drug rallies. Moreover, [the leader’s] efforts to promote Pump, Inc., admittedly substantial from a personal point of view, apparently ended sometime in 1988, and were only rekindled in recent months. The band itself was inactive from 1988 until after the institution of this lawsuit.

Again, this factor favors Aerosmith.

7. *Summary*

Weighing each of the eight factors examined above, the Court concludes that Pump, Inc. has failed to demonstrate any likelihood of confusion, much less a substantial one. While there is some surface similarity between the marks themselves, and while the parties offer similar services and utilize similar means of reaching similar audiences, the Court is swayed by the following factors: the dissimilar manner in which the word “Pump” is used by the parties; the weak evidence of actual confusion; the weakness of the mark of Pump, Inc.; and Aeros-

mith's lack of bad faith. Consequently, summary judgment in favor of Aerosmith is appropriate on the claim of service mark infringement . . .

NOTE

In addition, the scope of coverage of a trademark will not be unreasonably extended. In *Pirone v. Macmillan, Inc.*, 894 F.2d 579 (2d Cir. 1990), defendant Macmillan published *The 1988 Macmillan Baseball Engagement Calendar*, using "Macmillan" (in addition to using it as part of the title) on the back cover, the title page, and the copyright page. The book consisted of weekly calendars on each right-hand page, with pictures on each left-hand page. Among the pictures of such stars as Lou Gehrig and Mickey Mantle were two pictures of Babe Ruth and a picture of a baseball autographed by Babe Ruth. Ruth, of course, had had commercial endorsements during his lifetime, and after his death, his daughters registered "Babe Ruth" as a trademark for "paper articles, namely, playing cards, writing paper, and envelopes." Babe Ruth League, Inc., was licensed to use the trademark for its amateur baseball league, and Curtis Management Group, Inc., was authorized to license the mark to third parties on a royalty basis. The Second Circuit affirmed the trial court's grant of summary judgment with respect to the Ruth daughters' federal and common law trademark infringement and unfair competition claims, and the lower court's dismissal of their claims for infringement of the common law right of privacy, for violation of §§ 50 and 51 of the New York Civil Rights Law, and unfair competition.

On the trademark claims, the court observed that

[t]he owner of the mark acquires only the right to prevent his goods from being confused with those of others and to prevent his own trade from being diverted to competitors through their use of misleading marks. . . . [Rejecting the daughters' claim that their registration of two specific pictures of Babe Ruth extended their rights to every photograph ever taken of him, the court stated that] an individual's likeness is not a consistently represented fixed image—different photographs of the same person may be markedly dissimilar. Thus, a photograph of a human being, unlike a portrait of a fanciful cartoon character, is not inherently "distinctive" in the trademark sense of tending to indicate origin. . . . Whatever rights [the daughters] may have in the mark "Babe Ruth," Macmillan's use of Ruth's name and photographs can infringe those rights only if that use was a "trademark use," that is, one indicating source or origin [which was not the case here]. . . . Here, the calendar uses the name and image of Babe Ruth . . . to identify a great baseball player enshrined in the history of the game. Such use is not a trademark use and not an infringement.

"[The daughters'] unfair competition claim is broader, since Section 43(a) [of the Lanham Act] is violated by the use of any "symbol" as a "false designation of origin" or as any "representation," whether or not a registered trademark is involved. 15 U.S.C. § 1125(a). While these pictures of Ruth are in a sense symbols, they in no way indicate origin or represent sponsorship. . . . The pictures of Ruth no more indicate origin than does the back cover's picture of Jackie Robinson stealing home plate. Both covers are merely descriptive of the calendar's subject matter. In neither case would any consumer reasonably believe that Ruth or Robinson sponsored the calendar. . . . The source of the calendar is clearly indicated by the numerous references to Macmillan. . . . [Here, there was no possibility of confusion, hence no possibility of infringement. As to the privacy claims, the court observed that §§ 50 and 51 applied only to living persons, and that the New York courts had held that the Civil Rights Law preempted any common law publicity claims.]

ACQUISITION OF RIGHTS: IDEAS AND OTHER PROPERTY

4.1. IDEAS

Every entertainment project ever made began with a creative idea. Everyone agrees that this is so. But the value of ideas, by themselves, is debated in the entertainment industry. Some think them very valuable, and entire books have been written telling people just how to go about selling their ideas. See, e.g., Robert Kosberg with Mim Eichler, *How to Sell Your Idea to Hollywood* (Harper Perennial, 1991); Carlos de Abreu & Howard Jay Smith, *How to Sell Your Story-Book-Screenplay Idea* (Custos Morum Publishers, 1995). The contrary view is that “the idea” is one of Hollywood’s “most overrated” commodities. According to this view, “[a]n idea is just an idea. If it’s good, all that remains is the work” (Richard Walter, *Screenwriting: The Art, Craft and Business of Film and Television Writing*, 152–53 [Plume, 1988]).

The law too is ambivalent about ideas. It provides some protection to those who submit ideas to others (against the unauthorized use of those ideas), and it also provides some protection for those who receive idea submissions (against unwarranted claims by those who submitted them). Part of the law’s ambivalence is explained by nothing more than its efforts to balance competing interests. The competing interests in question were noted long ago by Lord Mansfield: “We must take care to guard against two extremes equally prejudicial: The one that men of ability, who have employed their time for the service of the community, may not be deprived of their just merits and the reward of their ingenuity and labor; the other, that the world may not be deprived of improvements, nor the progress of the arts be retarded” (*Sayre v. Moore*, 1 East 361, 101 Eng.Rep. 140, quoted in *Stanley v. CBS*, 35 Cal.2d 653, 221 P.2d 73 [1950] [Stanley, J., dissenting]).

The law’s ambivalence about ideas also is explained by its history. At one time, the law provided no protection whatsoever against unauthorized *dramatizations* of copyright-protected *literary works* (like novels)—let alone against the unauthorized use of mere ideas. When copyright law was amended in 1891 to create

a right to dramatize copyright-protected literary works, Congress made it clear that it was only protecting “expression,” not “ideas.” See Lionel S. Sobel, “The Law of Ideas, Revisited,” 1 *UCLA Entertainment Law Review* 9, 14–15 (1994).

Of course, the distinction between expression and ideas is not marked by a bright or distinct line. The three opinions in Section 4.1.1 of this chapter—*Nichols v. Universal Pictures*, *Zambito v. Paramount*, and *Universal v. Film Ventures*—all deal with that distinction and demonstrate how difficult it is to apply in actual cases. They also illustrate just how much similarity of detail must exist for copyright infringement to be proved.

In the 1950s, courts were confronted with several cases in which ideas had been used without authorization (or at least without compensation) under circumstances that seemed unfair, even though no copyrights had been infringed. Thus some courts—especially those in California—embarked on a search for legal doctrines other than copyright that would provide protection for ideas. The first two cases in Section 4.1.2 of this chapter—*Desny v. Wilder* and *Mann v. Columbia Pictures*—show that this search led courts to conclude that ideas could be protected by contract and confidential relationship law, under certain circumstances. The first two major cases in Section 4.1.2—*Blaustein v. Burton* and *Murray v. NBC*—deal with a related issue: whether the idea for which protection is sought must be novel in order to be protected by contract or whether non-novel ideas will be protected too.

4.1.1 Copyright Law: Idea versus Expression

Copyright law is the place where legal protection for literary and dramatic works is found, so it is logical that this is the first place that plaintiffs look for protection when their ideas are used without authorization, especially if those ideas were embedded in a copyright-protected book, play or movie. Copyright law, however, does not protect ideas and never has. See, e.g., Copyright Act § 102(b), 17 U.S.C. § 102(b) (“In no case does copyright protection for an original work of authorship extend to any idea.”)

Thus, when relying on copyright law, it is necessary for a plaintiff to show that copyright-protected “expression” was used by the defendant. The first two cases below, *Nichols v. Universal Pictures* and *Zambito v. Paramount*, are representative of dozens of cases in which courts ruled that copyright-protected expression had not been used. Contrast the facts of these two cases with those of the third case in this section, *Universal v. Film Ventures*, where the court found that copyright-protected expression had been used. Taken together, these cases should give you a good sense of how much detail must be copied in order to prove copyright infringement.

Nichols v. Universal Pictures Corp., 45 F.2d 119 (2d Cir. 1930), *cert. denied*, 282 U.S. 902 (1931)

L. HAND, CIRCUIT JUDGE

The plaintiff is the author of a play, “Abie’s Irish Rose,” which it may be assumed was properly copyrighted. . . . The defendant produced publicly a motion picture play, “The Cohens and The Kellys,” which the plaintiff alleges was taken from it. As we think the defendant’s play too unlike the plaintiff’s to be an infringement, we may assume, *arguendo*, that in some details the defendant used the

plaintiff's play, as will subsequently appear, though we do not so decide. It therefore becomes necessary to give an outline of the two plays.

"Abie's Irish Rose" presents a Jewish family living in prosperous circumstances in New York. The father, a widower, is in business as a merchant, in which his son and only child helps him. The boy has philandered with young women, who to his father's great disgust have always been Gentiles, for he is obsessed with a passion that his daughter-in-law shall be an orthodox Jewess. When the play opens the son, who has been courting a young Irish Catholic girl, has already married her secretly before a Protestant minister, and is concerned to soften the blow for his father, by securing a favorable impression of his bride, while concealing her faith and race. To accomplish this he introduces her to his father at his home as a Jewess, and lets it appear that he is interested in her, though he conceals the marriage. The girl somewhat reluctantly falls in with the plan; the father takes the bait, becomes infatuated with the girl, concludes that they must marry, and assumes that of course they will, if he so decides. He calls in a rabbi, and prepares for the wedding according to the Jewish rite.

Meanwhile the girl's father, also a widower, who lives in California, and is as intense in his own religious antagonism as the Jew, has been called to New York, supposing that his daughter is to marry an Irishman and a Catholic. Accompanied by a priest, he arrives at the house at the moment when the marriage is being celebrated, but too late to prevent it, and the two fathers, each infuriated by the proposed union of his child to a heretic, fall into unseemly and grotesque antics. The priest and the rabbi become friendly, exchange trite sentiments about religion, and agree that the match is good. Apparently out of abundant caution, the priest celebrates the marriage for a third time, while the girl's father is inveigled away. The second act closes with each father, still outraged, seeking to find some way by which the union, thus trebly insured, may be dissolved.

The last act takes place about a year later, the young couple having meanwhile been abjured by each father, and left to their own resources. They have had twins, a boy and a girl, but their fathers know no more than that a child has been born. At Christmas each, led by his craving to see his grandchild, goes separately to the young folks' home, where they encounter each other, each laden with gifts, one for a boy, the other for a girl. After some slapstick comedy, depending upon the insistence of each that he is right about the sex of the grandchild, they become reconciled when they learn the truth, and that each child is to bear the given name of a grandparent. The curtain falls as the fathers are exchanging amenities, and the Jew giving evidence of an abatement in the strictness of his orthodoxy.

"The Cohens and The Kellys" presents two families, Jewish and Irish, living side by side in the poorer quarters of New York in a state of perpetual enmity. The wives in both cases are still living, and share in the mutual animosity, as do two small sons, and even the respective dogs. The Jews have a daughter, the Irish a son; the Jewish father is in the clothing business; the Irishman is a policeman. The children are in love with each other, and secretly marry, apparently after the play opens. The Jew, being in great financial straits, learns from a lawyer that he has fallen heir to a large fortune from a great-aunt, and moves into a great house, fitted luxuriously. Here he and his family live in vulgar ostentation, and here the Irish boy seeks out his Jewish bride, and is chased away by the angry father. The Jew then abuses the Irishman over the telephone, and both become hysterically excited. The extremity of his feelings makes the Jew sick, so

that he must go to Florida for a rest, just before which the daughter discloses her marriage to her mother.

On his return the Jew finds that his daughter has borne a child; at first he suspects the lawyer, but eventually learns the truth and is overcome with anger at such a low alliance. Meanwhile, the Irish family who have been forbidden to see the grandchild, go to the Jew's house, and after a violent scene between the two fathers in which the Jew disowns his daughter, who decides to go back with her husband, the Irishman takes her back with her baby to his own poor lodgings. The lawyer, who had hoped to marry the Jew's daughter, seeing his plan foiled, tells the Jew that his fortune really belongs to the Irishman, who was also related to the dead woman, but offers to conceal his knowledge, if the Jew will share the loot. This the Jew repudiates, and, leaving the astonished lawyer, walks through the rain to his enemy's house to surrender the property. He arrives in great dejection, tells the truth, and abjectly turns to leave. A reconciliation ensues, the Irishman agreeing to share with him equally. The Jew shows some interest in his grandchild, though this is at most a minor motive in the reconciliation, and the curtain falls while the two are in their cups, the Jew insisting that in the firm name for the business, which they are to carry on jointly, his name shall stand first.

It is of course essential to any protection of literary property, whether at common-law or under the statute, that the right cannot be limited literally to the text, else a plagiarist would escape by immaterial variations. That has never been the law, but, as soon as literal appropriation ceases to be the test, the whole matter is necessarily at large, so that, as was recently well said by a distinguished judge, the decisions cannot help much in a new case. . . . [W]hen the plagiarist does not take out a block in situ, but an abstract of the whole, decision is more troublesome. Upon any work, and especially upon a play, a great number of patterns of increasing generality will fit equally well, as more and more of the incident is left out. The last may perhaps be no more than the most general statement of what the play is about, and at times might consist only of its title; but there is a point in this series of abstractions where they are no longer protected, since otherwise the playwright could prevent the use of his "ideas," to which, apart from their expression, his property is never extended. Nobody has ever been able to fix that boundary, and nobody ever can. In some cases the question has been treated as though it were analogous to lifting a portion out of the copyrighted work; but the analogy is not a good one, because, though the skeleton is a part of the body, it pervades and supports the whole. In such cases we are rather concerned with the line between expression and what is expressed. As respects plays, the controversy chiefly centers upon the characters and sequence of incident, these being the substance.

We did not in *Dymow v. Bolton*, 11 F.(2d) 690, hold that a plagiarist was never liable for stealing a plot; that would have been flatly against our rulings in *Dam v. Kirk La Shelle Co.*, 175 F. 902, 41 L.R.A. (N.S.) 1002, 20 Ann. Cas. 1173, and *Stodart v. Mutual Film Co.*, 249 F. 513, affirming my decision in (D.C.) 249 F. 507; neither of which we meant to overrule. We found the plot of the second play was too different to infringe, because the most detailed pattern, common to both, eliminated so much from each that its content went into the public domain; and for this reason we said, "this mere subsection of a plot was not susceptible of copyright." But we do not doubt that two plays may correspond in plot closely enough for infringement. How far that correspondence must go is another matter.

Nor need we hold that the same may not be true as to the characters, quite independently of the "plot" proper, though, as far as we know, such a case has never arisen. If *Twelfth Night* were copyrighted, it is quite possible that a second comer might so closely imitate Sir Toby Belch or Malvolio as to infringe, but it would not be enough that for one of his characters he cast a riotous knight who kept wassail to the discomfort of the household, or a vain and foppish steward who became amorous of his mistress. These would be no more than Shakespeare's "ideas" in the play, as little capable of monopoly as Einstein's Doctrine of Relativity, or Darwin's theory of the Origin of Species. It follows that the less developed the characters, the less they can be copyrighted; that is the penalty an author must bear for marking them too indistinctly.

In the two plays at bar we think both as to incident and character, the defendant took no more—assuming that it took anything at all—than the law allowed. The stories are quite different. One is of a religious zealot who insists upon his child's marrying no one outside his faith; opposed by another who is in this respect just like him, and is his foil. Their difference in race is merely an obbligo to the main theme, religion. They sink their differences through grandparental pride and affection. In the other, zealotry is wholly absent; religion does not even appear. It is true that the parents are hostile to each other in part because they differ in race; but the marriage of their son to a Jew does not apparently offend the Irish family at all, and it exacerbates the existing animosity of the Jew, principally because he has become rich, when he learns it. They are reconciled through the honesty of the Jew and the generosity of the Irishman; the grandchild has nothing whatever to do with it. The only matter common to the two is a quarrel between a Jewish and an Irish father, the marriage of their children, the birth of grandchildren and a reconciliation.

If the defendant took so much from the plaintiff, it may well have been because her amazing success seemed to prove that this was a subject of enduring popularity. Even so, granting that the plaintiff's play was wholly original, and assuming that novelty is not essential to a copyright, there is no monopoly in such a background. Though the plaintiff discovered the vein, she could not keep it to herself; so defined, the theme was too generalized an abstraction from what she wrote. It was only a part of her "ideas."

Nor does she fare better as to her characters. It is indeed scarcely credible that she should not have been aware of those stock figures, the low comedy Jew and Irishman. The defendant has not taken from her more than their prototypes have contained for many decades. If so, obviously so to generalize her copyright, would allow her to cover what was not original with her. But we need not hold this as matter of fact, much as we might be justified. Even though we take it that she devised her figures out of her brain *de novo*, still the defendant was within its rights.

There are but four characters common to both plays, the lovers and the fathers. The lovers are so faintly indicated as to be no more than stage properties. They are loving and fertile; that is really all that can be said of them, and anyone else is quite within his rights if he puts loving and fertile lovers in a play of his own, wherever he gets the cue. The plaintiff's Jew is quite unlike the defendant's. His obsession is his religion, on which depends such racial animosity as he has. He is affectionate, warm and patriarchal. None of these fit the defendant's Jew, who shows affection for his daughter only once, and who has none but the most superficial interest in his grandchild. He is tricky, ostentatious and vulgar, only

by misfortune redeemed into honesty. Both are grotesque, extravagant and quarrelsome; both are fond of display; but these common qualities make up only a small part of their simple pictures, no more than any one might lift if he chose. The Irish fathers are even more unlike; the plaintiff's a mere symbol for religious fanaticism and patriarchal pride, scarcely a character at all. Neither quality appears in the defendant's, for while he goes to get his grandchild, it is rather out of a truculent determination not to be forbidden, than from pride in his progeny. For the rest he is only a grotesque hobbledohoy, used for low comedy of the most conventional sort, which any one might borrow, if he chanced not to know the exemplar.

The defendant argues that the case is controlled by my decision in *Fisher v. Dillingham* (D.C.) 298 F. 145. Neither my brothers nor I wish to throw doubt upon the doctrine of that case, but it is not applicable here. We assume that the plaintiff's play is altogether original, even to an extent that in fact it is hard to believe. We assume further that, so far as it has been anticipated by earlier plays of which she knew nothing, that fact is immaterial. Still, as we have already said, her copyright did not cover everything that might be drawn from her play; its content went to some extent into the public domain. We have to decide how much, and while we are as aware as any one that the line, wherever it is drawn, will seem arbitrary, that is no excuse for not drawing it; it is a question such as courts must answer in nearly all cases. Whatever may be the difficulties a priori, we have no question on which side of the line this case falls. A comedy based upon conflicts between Irish and Jews, into which the marriage of their children enters, is no more susceptible of copyright than the outline of *Romeo and Juliet*. . . .

**Zambito v. Paramount Pictures, 613 F. Supp. 1107 (E.D.N.Y.), *aff'd*,
788 F.2d 2 (2d Cir. 1985)**

DISTRICT JUDGE MCLAUGHLIN

This is an action for copyright infringement. . . . Plaintiff Zambito, an archaeologist-screenwriter, asserts that defendants' movie, "Raiders of the Lost Ark" ("Raiders"), infringes copyrightable material contained in his screenplay, "Black Rainbow" ("Rainbow"). Both sides have moved for summary judgment on the issue of substantial similarity. For the reasons set forth below, defendants' motion for summary judgment is granted and plaintiff's motion is denied.

Facts

For the purpose of this motion only, defendant concedes the validity of plaintiff's copyright and defendants' access to the plaintiff's copyrighted work. Thus, the only task facing the Court is to determine whether the two works are sufficiently similar to raise a genuine issue of copyright infringement; if such an issue exists a trial is, of course, required.

"Rainbow"

Plaintiff's screenplay, "Black Rainbow," is the story of archaeologist Zeke Banarro's ("Zeke") expedition to the Andes of Peru in search of pre-Columbian gold artifacts. In the preamble to "Rainbow," Zeke is introduced as "a legitimate archaeologist who became a renegade treasure hunter or huaquero."

In the opening scene, Zeke is informed by his former lover, Michael Colby, a

female museum curator, that Zeke has been replaced as head of an expedition to Peru. Undaunted, Zeke finances his own “bootleg” expedition with the help of a cocaine dealer who fronts Zeke the money in exchange for Zeke’s promise to smuggle cocaine from Peru.

Upon arrival in Peru, Zeke and his sidekick, Justo, a Peruvian Indian native, pause to taste the pleasures of cocaine and prostitutes. After assembling an entourage of Indian natives and taking as a partner, Alvarado, who supplied horses and pack animals, the party then proceeds on the expedition.

Along the way, Tumba, Alvarado’s servant/mistress, gives birth to a son. Shortly thereafter, Alvarado offers Tumba’s services as a prostitute in return for the other Indians’ share of the treasure. Zeke seeks to prevent this exploitation by pacifying the natives with cocaine. Ironically, Tumba, who is understandably grateful for this act of humanity, rewards Zeke with sexual favors.

Later, an old Indian mystic tells Zeke that he can locate the cave with the great anaconda snakes, and hopefully the treasure, by observing the reflection of the sun off the side of the cliffs. Upon locating the cave, the party rappells down the side of the cliff, fights off the anacondas with molotov cocktails, and uncovers the treasure in a burial site inside the cave.

As they are about to begin their trek back from the cliff top, the expedition is confronted by the script’s principal antagonist, Von Stroessner, and his band of thieves. As it turns out, Von Stroessner was hired by Michael Colby and the museum to follow Zeke and liberate him of his new-found treasure. A fight ensues, in which Zeke and Von Stroessner are wounded and several Indians are killed. Zeke ultimately shoots Von Stroessner in cold blood.

The expedition party continues the journey back, only to be confronted by the Peruvian National Guard. In the ensuing gunfire, Justo is mortally wounded, the remaining Indians are killed, and Zeke and Alvarado are forced to flee through the dense jungle carrying what little gold they can carry. Zeke ultimately shoots Alvarado in a quarrel over the remaining treasure, and the story ends with Zeke hiking back to civilization.

“Raiders”

“Raiders of the Lost Ark,” by now familiar to movie-goers everywhere, is the swashbuckling adventure story of archaeologist Indiana Jones (“Indy”). After a brief introductory expedition to South America in 1936, which is foiled by Indy’s arch-rival, Belloq, a French mercenary archaeologist, Indy returns home only to find that his services are required by the United States Army. It seems that army intelligence has revealed that Hitler is digging outside of Cairo for the lost Ark of the Covenant. Hitler, we are told, seeks to take advantage of the Ark’s vast supernatural powers. Indy’s mission, should he choose to accept it, is to beat Hitler’s to the Ark.

Indy flies to Nepal where he locates Marion Ravenwood, his former lover and the daughter of his mentor. Marion has the headpiece to the Staff of Ra, which is the key to locating the Ark. When attached to a staff and placed in a miniature map room in the ancient city outside Cairo, the headpiece will direct the sun’s rays to the location of the Well of Souls, in which the Ark is hidden. After Indy saves Marion from several ruthless Nazis, who are also after the headpiece, the pair heads for Cairo.

There, Indy discovers that Hitler has hired his old rival, Belloq, to direct the

excavation. Belloq takes great interest in Marion, who has since been abducted by the Nazis.

Meanwhile, Indy and Sallah, an Egyptian friend, manage to sneak into the excavation and descend into the map room, where they discover the location of the Well of Souls. As they are about to descend into the Well, they discover that its floor is covered with tiny asps. Indy fends off the snakes by dousing them with fuel oil and setting them afire.

Indy and Sallah place the Ark in a crate and hoist it to their helpers waiting above. Once Sallah has ascended, the Nazis, who have observed Indy's discovery, thrust Marion into the well with Indy and seal it up. The two manage to escape through the wall, however, to a neighboring catacomb.

After blowing up a Nazi airplane, Indy realizes that the Ark is now aboard a truck headed for Cairo. In a famous "chase" scene, Indy, riding a white steed, catches up with the Nazi caravan, gains control of the truck, fends off the Nazis, and escapes into the maze of the streets of Cairo.

Indy and Marion depart Cairo with the Ark aboard a ship, only to be overtaken by a Nazi U-boat. Indy, who managed to elude capture, follows the Nazis to an unidentified Mediterranean Island only to be taken captive once again. With Indy and Marion tied up nearby, Belloq and the Nazis open the Ark in a ritualistic ceremony. The grotesque spirits released therefrom converge upon the Nazis in a bizarre swoop of destruction. Only Indy and Marion, who in Old Testament fashion have kept their eyes closed throughout, are spared.

Back in Washington, D.C., as the film closes, we see the crated Ark being transported to an army warehouse where, among thousands of other identical crates, it will lie forever forgotten.

Discussion

Although the question whether two works are substantially similar usually presents a factual issue that does not lend itself to summary judgment, the Second Circuit has recognized the appropriateness of summary judgment in copyright actions, "permitting courts to put 'a swift end to meritless litigation' and to avoid lengthy and costly trials." Clearly, summary judgment is appropriate where, after reviewing the comparing works, the Court concludes either that any similarity between the works concerns only non-copyrightable elements or that no reasonable jury, properly instructed, could find the works substantially similar.

The test for substantial similarity has been succinctly described as "whether an average lay observer would recognize the alleged copy as having been appropriated from the copyrighted work." In assessing whether a properly instructed jury may find two works substantially similar, it is helpful to review a few basic principles delineating the scope of copyright protection.

It is, of course, well-settled that a copyright protects only an author's original expression of an idea, not the idea itself. . . . In addition, a copyright affords no protection to so-called "scenes a faire," i.e., characters, settings or events which necessarily follow from a certain theme or plot situation.

Plaintiff concedes, as he must, that a basic idea of an archaeologist searching for artifacts is unprotectible. He argues, however, that actionable similarities lie in the characters, devices and action employed in expressing that idea. Defendant, of course, argues that any similarities existing between the two works are, in fact, unprotectible scenes a faire. I agree.

It is unnecessary to discuss every alleged similarity in the two works; a brief discussion of the salient portions of plaintiff's argument is illustrative.

First, it is noted that the mood and "feel" of the two works are completely different. "Rainbow" is, for the most part, a somber, vulgar script replete with overt sexual scenes, cocaine smuggling and cold-blooded killing. "Raiders," on the other hand, is a tongue-in-cheek, action-packed, Jack Armstrong, all-American adventure story.

Nor is there substantial similarity in the settings of the two works. "Rainbow" is set almost entirely in a Peruvian jungle. Although "Raiders" begins with a very brief expedition to a booby-trapped cave in a South-American jungle, most of the story is set in and around Cairo. Thus, any similarity of locale is simply too insignificant to warrant protection.

Plaintiff fares no better in his claim of character infringement. As the Second Circuit has stated, "[s]tirring one's memory of a copyrighted character is not the same as appearing to be substantially similar to that character, and only the latter is infringement." A review of plaintiff's claims of character infringement indicates that no jury could reasonably find the characters substantially similar.

Plaintiff argues, initially, that actionable similarity lies between the two protagonists, Zeke Banarro and Indiana Jones. Any similarity ends, however, with the fact that both are male and both are archaeologists. Zeke is basically a serious, self-interested, individual who betrays both the museum for which he works and his illegitimate "backer," strikes out on his own, and ends up shooting his adversaries in cold-blood. Indy, on the other hand, is a larger-than-life adventurer who, in matinee-idol fashion, remains loyal to truth, justice and the American way.

Nor does actionable similarity exist regarding the principal antagonists, Belloq in "Raiders" and Von Stroessner in "Rainbow." Belloq is an articulate, cultured French archaeologist who is Indy's established rival. Although not a Nazi himself, Belloq has been hired by Hitler to find the lost Ark.

Von Stroessner, whose full name is Juan Jos de Maria Lopez y Von Stroessner, is described as a mestizo thief who preys upon archaeologists. Plaintiff claims that the name Von Stroessner was chosen to depict the character as a post-war Nazi. Nothing in the script, however, indicates that Von Stroessner is, in fact, a Nazi. Indeed, it is ultimately revealed that Von Stroessner was hired, not by the Nazis, but by the museum where Zeke formerly was employed.

Plaintiff's assertion that he intended the Von Stroessner character to depict a Nazi does not present an actionable claim. The law of copyright protects the author's actual expression of an idea, and not the idea as it existed in the author's imagination. Clearly, "no character infringement claim can succeed unless plaintiff's original conception sufficiently developed the character, and defendants have copied this development and not merely the broader outlines."

In any event, even if the distorted inference that Von Stroessner is a Nazi could be drawn, no actionable similarity would lie. It is significant that "Raiders" is set in the late-1930's, the Nazi era. "Rainbow," on the other hand, obviously takes place in a contemporary setting, as is evidence from various references to the World Trade Center, the King Tut exhibit at the Metropolitan Museum of Art, Laurence Rockefeller, and the cocaine trade. Thus, any similarity caused by a remote reference to Nazism is, to say the least, superficial.

Finally, and incredibly, plaintiff asserts a similarity between Marion Ravenwood of "Raiders" and a combination of Tumba, the pregnant Indian mistress,

and Michael Colby, the ambitious museum curator, of “Rainbow.” The only similarities between these characters, however, are that they are female and that they share the common experience of a sexual encounter with the respective protagonists.

Upon close inspection, plaintiff’s remaining claims of actionable similarity fall within the category of unprotectible scenes a faire. That treasure might be hidden in a cave inhabited by snakes, that fire might be used to repel the snakes, that birds might frighten an intruder in the jungle, and that a weary traveler might seek solace in a tavern, all are indispensable elements to the treatment of “Raiders” theme, and are, as a matter of law, simply too general to be protectible.

Moreover, these scenes were given dissimilar treatment in the respective works. For instance, in “Rainbow,” the party’s access to the cave was hindered by giant anaconda snakes that ultimately were frightened away by molotov cocktails. In “Raiders,” the floor of the Well of Souls was covered by hundreds of tiny asps and a cobra, that were fended off by burning them with fuel oil.

Likewise, an examination of plaintiff’s claim that both scripts utilize sunlight to locate the treasure reveals a similarity too general to afford protection. In “Rainbow,” the treasure-filled cave is located by observing the reflection of the sun off a crystallized rock formation on the side of a cliff. In “Raiders,” however, the location of the Well of Souls is determined in a map room by observing the reflection of the sun through the headpiece of the Staff of Ra.

Finally, plaintiff’s claim of dialogue infringement involves generalized insignificant pieces of dialogue which also necessarily flow from a common theme.

In short, having thoroughly reviewed all the plaintiff’s claims (and having thoroughly enjoyed both scripts), I am led ineluctably to the conclusion that a “comparison of the two works reveals that their similarity exists only at a level of abstractions too basic to permit any inference that defendants wrongfully appropriated any ‘expression’ of plaintiff’s ideas.”

Accordingly, defendants’ motion for summary judgment is granted and plaintiff’s motion is denied. . . . The complaint is hereby dismissed.

Universal City Studios, Inc. v. Film Ventures International, Inc. 543 F. Supp. 1134 (C.D.Cal. 1982)

UNITED STATES DISTRICT JUDGE KENYON

. . . Findings of Fact

1. This is a civil action . . . for copyright infringement. . . . This preliminary injunction proceeding involves Plaintiffs’ claim that Defendants have infringed the copyrights in the motion pictures “Jaws” and “Jaws 2.” . . .

6. Prior to January, 1974, Peter Benchley (“Benchley”) created and wrote a book entitled “Jaws,” which is a fictional story about a great white shark that terrorizes the inhabitants of a coastal town on the Atlantic seaboard. Benchley has secured the exclusive rights and privileges in and to the copyright of the book “Jaws” and has received from the Register of Copyrights a Certificate of Registration identified as No. A-497539. Benchley subsequently assigned to Universal and The Zanuck/Brown Company all motion picture and allied rights in the book “Jaws.”

7. Universal is the owner of the copyright in a motion picture entitled “Jaws.” Prior to June 20, 1975, Universal produced the motion picture “Jaws” based on

the book “Jaws” written by Benchley. Universal has received from the Register of Copyrights a Certificate of Registration identified as No. LP-4455.

8. Since approximately June 20, 1975, Universal has exhibited the motion picture “Jaws” throughout the United States and the world to millions of members of the public. Defendants have had access to Benchley’s book “Jaws” and Universal’s motion picture “Jaws.”

9. [In 1980] Defendants . . . produced . . . a motion picture about a great white shark that terrorizes the inhabitants of a coastal town on the Atlantic seaboard. . . . That motion picture has been distributed in the United States using the title “Great White” and will be referred to hereinafter as “Great White.” Defendants had no permission or consent from Universal or Benchley to produce or distribute “Great White.” . . .

12. The expression . . . in “Great White” and the motion picture “Jaws” is substantially similar. . . . For example, and without limitation, the basic story points, the major characters, the sequence of incident, and the development and interplay of the major characters and story points of “Great White” are substantially similar to these elements in “Jaws.”

13. Substantial similarity of the basic story points is found in the following comparisons:

a. The local politician, a gubernatorial candidate in “Great White” and the mayor in “Jaws,” both of whom play down the news of the shark in the interest of local tourism.

b. In “Great White” the action revolves primarily around a salty, English-accented skipper and a local shark expert who go out in a boat to hunt the shark; in “Jaws” the action similarly revolves primarily around a salty English-accented skipper, a shark expert, and the local police chief who go out in a boat to hunt the shark.

c. In the finale of “Great White” the skipper is eaten by the shark, and then the shark expert kills the shark by detonating dynamite which the shark has swallowed. In the finale of “Jaws” the skipper is eaten by the shark, and then the police chief kills the shark by exploding a canister of compressed air which the shark has swallowed.

14. Furthermore, all the major characters in “Great White” have substantially similar counterparts in “Jaws”:

a. The shark in both films becomes a principal character in its own right. The two sharks are maniacal and demonic, attacking people and boats for reasons beyond satisfying hunger. In addition, when hunted, both sharks attack the hunters rather than flee. The presence of the sharks in the waters of the coastal resorts in each film is unusual.

b. The salty skippers, both of whom have heavy English-type accents and are experienced shark hunters, are substantially similar. The skipper in the two works accompanies the expedition in search of the shark and is killed in the finale.

c. The politicians in both films are also substantially similar; they are concerned about the effect that the news would have on tourism. Specifically, in “Great White” the gubernatorial candidate is concerned about the windsurfing regatta and his political campaign; in “Jaws” the mayor is concerned about the Fourth of July weekend. Moreover, in “Great White,” after the shark expert’s child is injured by the shark, the politician apologizes to the father in the hospital and as an act of contrition personally hunts for the shark. In “Jaws” after the police chief’s child has gone into a state of shock because of the shark, the politician

apologizes to the father in the hospital and as an act of contrition signs a contract hiring the salty skipper to hunt the shark.

d. Finally, the local shark expert in “Great White,” Peter Benton (James Franciscus) is a combination of two characters in “Jaws”: the shark expert (Richard Dreyfuss) and the local police chief (Roy Scheider). As the shark expert in “Jaws,” Richard Dreyfuss tries to warn the town of the dangers of the shark; in “Great White,” the shark expert does the same thing. In “Jaws,” the local police chief has a blond wife and a child injured by the shark; in “Great White,” James Franciscus has a blond wife and a child injured by the shark.

15. There is also substantial similarity between the development and interplay of the major characters and story points. The following non-inclusive list of comparisons of major incidents and the sequence of action indicates substantial similarity in the expression of the ideas of the two works at issue:

a. The opening scene in both films depicts teenagers playing on the beach. In “Great White” there are many underwater shots of a windsurf, repeated musical bass tones to indicate the approach of the shark and to build tension, and the windsurf becomes the first victim of the shark. In “Jaws” there are many underwater shots of a swimmer, repeated bass tones to indicate the approach of the shark and to build tension, and the swimmer becomes the first victim.

b. In “Great White” the action then shifts to the shark expert and his wife at home. After their daughter returns home, the expert goes out to search for the missing windsurf and finds part of the surfboard. He examines the surfboard and determines that a shark is responsible. In “Jaws” the police chief and his wife are at home. After their son returns home, the police chief receives a phone call which informs him that the swimmer is missing. The police chief finds part of the swimmer’s body (which was initially discovered by his assistant) and concludes that a shark is responsible.

c. In “Great White” there is a boat scene in which, to the accompaniment of bass tones, the shark approaches the boat, bumps it, and causes a girl to fall into the water. The girl is rescued before the shark attacks. In “Jaws” there is a similar boat scene in which, again to the sound of bass tones, the shark approaches the boat, bumps it, and causes a boy to fall into the water. The boy is also rescued before the shark attacks.

d. In “Great White” the empty boat of a local fisherman is found floating in the water. After examining the arm of the fisherman discovered in the hull, the expert tries to warn the politician about the dangers of the shark. In “Jaws” the police chief and the scientist find the empty boat of a local fisherman floating in the water. After examining the body of the dead fisherman and a shark’s tooth found in the hull, the two men try to warn the politician about the dangers of the shark.

e. The scare technique of a false alarm is present in both films. In “Great White” a broken surfboard, which looks like the fin of a shark, floats through the water. In “Jaws” a bathing cap, which looks like the head of a shark, floats through the water.

f. Both politicians agree to take security measures. In “Great White” several boats with armed spotters are placed around the bay and underwater netting is installed. The gubernatorial candidate refuses to cancel the windsurfing regatta. In “Jaws” several boats with armed spotters are placed around the harbor. The Fourth of July festivities are not cancelled by the mayor.

g. In both works, the shark attacks a dinghy. The dinghy is capsized, and the shark's consumption of the occupant is shown.

h. In "Great White" a local newsman and his cameraman, in order to obtain publicity, decide to lower raw meat off the pier as shark bait. The shark grabs the bait, breaking off part of the pier. People fall off the pier; some manage to reach shore as the shark attacks. In "Jaws" two bounty-hunters, seeking the monetary award, decide to lower raw meat off the pier as shark bait. The shark grabs the bait and breaks off part of the pier. One of the men falls off the pier and into the water, but manages to swim back to shore before the shark attacks.

i. The apologies and acts of contrition by the politicians in both films, which have already been described, also indicate substantial similarity in the major incidents and sequence of events in the two works.

j. The final scene in both movies involving the swallowing of the skipper and the explosion of the shark (described more fully above) is also evidence of similarity of the expression of the idea through major incidents and sequence of events. . . .

Conclusions of Law

. . . 11. Plaintiffs contend that there is sufficient similarity of expression to mandate a finding of infringement because there is substantial similarity between the basic story points, the major characters, the sequence of incident, and the development and interplay of the major characters and story points of their copyrighted works, "Jaws" and "Jaws 2," and "Great White." On the other hand, Defendants argue that neither the basic idea nor the scenes a faire present in Plaintiffs' motion pictures is protected and that upon elimination of these elements from "Jaws" and "Jaws 2," "virtually no similarity remains" with respect to "Great White." In essence, most, if not all, of that which Plaintiffs present as evidence of substantial similarity of expression in support of their contention of copying, Defendants characterize as unprotected elements which do not constitute expression of ideas and are not even subject to review for infringement.

12. The Court rejects Defendants' overly expansive view of that which falls within the unprotected sphere of general ideas and scenes a faire and, instead, adopts Plaintiffs' characterization of that which constitutes the expression of ideas. . . . The similarity in the basic story lines, the major characters, the sequence of events, and the interplay and development of the characters and the plot is substantial. These similarities are set forth more fully in Findings of Fact Numbers 12–15. And while the two films are not identical, "[d]uplication or near identity is not necessary to establish infringement." To put it simply, Defendants have captured the "total concept and feel" of Plaintiffs' motion picture, "Jaws."

4.1.2 Idea Submissions

The *Nichols*, *Zambito*, and *Universal/Film Ventures* cases (in Section 4.1.1 above) are widely accepted as having been correctly decided. If after reading those cases, you thought that Ms. Nichols and Mr. Zambito *should* have received more protection than they did, then you understand why courts began to apply contract and confidential relationship law in idea submission cases.

Idea submission cases involve two types of legal issues. The first concerns the circumstances that must exist in order for a contract or confidential relationship to exist between the person who submits an idea and the person to whom it is

submitted. The second concerns the characteristics an idea must have in order for it to be protected (assuming a contract or confidential relationship is found).

4.1.2.1 Implied Contract

The leading case concerning the circumstances which will permit a finding that an implied-in-fact contract can exist between an idea-submitter and the recipient of the idea is *Desny v. Wilder*. Read it carefully; while it held that Mr. Desny was entitled to go to trial on his claim against Billy Wilder and Paramount Pictures, it also established fairly rigorous conditions that had to be satisfied for him to prevail. Those conditions have been incorporated into jury instructions used in subsequent idea-submission cases, like *Mann v. Columbia Pictures*. Moreover, those conditions are not always satisfied; they weren't in *Mann* itself. In many garden-variety idea-submission cases, the *Desny* requirements simply cannot be satisfied. Moreover, California is a minority of one in the idea submission area. As we see in *Murray v. NBC*, in Section 4.2.1.2, below, other states require that the idea be novel; moreover, there must be a confidential relationship between the submitter and the recipient. *Blaustein v. Burton and Faris v. Enberg*, along with the *Murray* case, illustrate the elements which are required in order to establish a confidential relationship.

Desny v. Wilder, 46 Cal.2d 715, 299 P.2d 257 (1956)

SCHAUER, JUSTICE

Plaintiff appeals from a summary judgment rendered against him in this action to recover the reasonable value of a literary composition, or of an idea for a photoplay, a synopsis of which composition, embodying the idea, he asserts he submitted to defendants for sale, and which synopsis and idea, plaintiff alleges, were accepted and used by defendants in producing a photoplay. . . .

[I]t appears from the present record that defendant Wilder at the times here involved was employed by defendant Paramount Pictures Corporation (sometimes hereinafter referred to as Paramount) either as a writer, producer or director, or a combination of the three. In November 1949, plaintiff telephoned Wilder's office. Wilder's secretary, who was also employed by Paramount, answered, and plaintiff stated that he wished to see Wilder. At the secretary's insistence that plaintiff explain his purpose, plaintiff "told her about this fantastic unusual story. . . . I described to her the story in a few words. . . . I told her that it was the life story of Floyd Collins who was trapped and made sensational news for two weeks. . . . and I told her the plot. . . . I described to her the entrapment and the death, in ten minutes, probably. She seemed very much interested and she liked it. . . . The main emphasis was the central idea, which was the entrapment, this boy who was trapped in a cave eighty-some feet deep. I also told her the picture had never been made with a cave background before." Plaintiff sought to send Wilder a copy of the story but when the secretary learned of its length of some 65 pages she stated that Wilder would not read it, that he wanted stories in synopsis form, that the story would first be sent to the script department, and "in case they think it is fantastic and wonderful, they will abbreviate it and condense it in about three or four pages, and the producers and directors get to see it." Plaintiff protested that he preferred to do the abbreviating of the story himself, and the secretary suggested that he do so. Two days later plaintiff, after preparing a three or four page outline of the story, telephoned Wilder's office a

second time and told the secretary the synopsis was ready. The secretary requested plaintiff to read the synopsis to her over the telephone so that she could take it down in shorthand, and plaintiff did so. During the conversation the secretary told plaintiff that the story seemed interesting and that she liked it. "She said that she would talk it over with Billy Wilder and she would let me know." Plaintiff on his part told the secretary that defendants could use the story only if they paid him "the reasonable value of it. . . . I made it clear to her that I wrote the story and that I wanted to sell it. . . . I naturally mentioned again that this story was my story which has taken me so much effort and research and time, and therefore if anybody used it they will have to pay for it. . . . She said that if Billy Wilder of Paramount uses the story, 'naturally we will pay you for it.'" Plaintiff did not remember whether in his first telephone conversation with the secretary anything was said concerning his purpose of selling the story to defendants. He did not at any time speak with defendant Wilder. It seems clear, however, that one of the authorized functions of the secretary was to receive and deliver messages to Wilder and hence, as is developed infra, that on this record her knowledge would be his knowledge. Plaintiff's only subsequent contact with the secretary was a telephone call to her in July 1950, to protest the alleged use of his composition and idea in a photoplay produced and exhibited by defendants. The photoplay, as hereinafter shown in some detail, closely parallels both plaintiff's synopsis and the historical material concerning the life and death of Floyd Collins. It also includes a fictional incident which appears in plaintiff's synopsis and which he claims is his creation, presumably in the sense of being both original and novel in its combination with the facts from the public commons or public domain.

. . . In his opening brief plaintiff states "It is conceded *for purposes of argument* [italics added] that the synopsis submitted by plaintiff to defendants was not sufficiently unique or original to be the basis for recovery under the law of plagiarism or infringement. It is conceded that the plaintiff first obtained the central idea or theme of his story, which involves the entrapment of a man in an underground cave and the national interest promoted by the attempt to rescue him, from the Floyd Collins incident which occurred in the 1920's.

"It is appellant's [plaintiff's] contention, however, that in spite of this, the lower court committed reversible error in granting a summary judgment in this case for the reason that the summary judgment had the effect of denying the plaintiff the right to prove that his idea or synopsis was the subject of a contract wherein the defendants promised to pay him for it if they used it. It is clear that 'ideas,' as such, may still be the subject of a contract in California and may be protected, as such, even though not protectible under the laws of plagiarism."

Plaintiff also asserts that he "is not suing defendants for plagiarizing his idea but is suing defendants because they agreed to pay him the reasonable value of the use of his idea and story synopsis if they used his idea" and that "defendants so used plaintiff's idea and synopsis but refused to pay him as they agreed." But the complaint, as already shown, alleges that "Plaintiff conceived, originated and completed [and offered for sale to and defendants accepted submission of and thereafter used] a certain untitled literary and dramatic composition (hereinafter called 'Plaintiff's Property') based upon the life of Floyd Collins."

If plaintiff is seeking to recover for a mere abstract, unprotectible idea, he must meet certain rules; if he seeks recovery for a literary composition in which

he conceivably had a property right, the rules are quite different, as will subsequently be shown. . . .

Defendants concede, as they must, that “the act of disclosing an unprotectible idea, if that act is in fact the bargained-for exchange for a promise, may be consideration to support the promise.” They then add, “But once the idea is disclosed without the protection of a contract, the law says that anyone is free to use it. Therefore, subsequent use of the idea cannot constitute consideration so as to support a promise to pay for such use.” And as to the effect of the evidence defendants argue that plaintiff “disclosed his material before . . . [defendants] did or could do anything to indicate their willingness or unwillingness to pay for the disclosure. The act of using the idea, from which appellant attempts to imply a promise to pay, came long after the disclosure. . . . Accordingly, even if a promise to pay could be found . . . it came after the disclosure had been made and is therefore unenforceable.” The conclusion of law asserted in the last sentence, insofar as it might be applicable to an express (whether proved by direct or by circumstantial evidence) promise to pay for the service (the conveyance of the idea) previously rendered from which a profit has been derived, for reasons which hereinafter appear, is not tenable. . . .

From what has been indicated above it appears necessary for us in the proper disposition of this case, having in mind the problems which apparently will confront the trial court at a trial on the merits and the duty imposed on us by section 53 of the Code of Civil Procedure, to consider not only (1) the rules for recovery pertaining to the conveyance of ideas, as such, but also (2) the question whether the synopsis of plaintiff’s untitled composition could on any view of the evidence be deemed entitled to the status of a literary property, and (3) the rules defining rights of recovery, so far as pertinent on this record, if plaintiff has a literary property in his composition.

The Law Pertaining to Ideas. Generally speaking, ideas are as free as the air and as speech and the senses, and as potent or weak, interesting or drab, as the experiences, philosophies, vocabularies, and other variables of speaker and listener may combine to produce, to portray, or to comprehend. But there can be circumstances when neither air nor ideas may be acquired without cost. The diver who goes deep in the sea, even as the pilot who ascends high in the troposphere, knows full well that for life itself he, or someone on his behalf, must arrange for air (or its respiration-essential element, oxygen) to be specially provided at the time and place of need. The theatrical producer likewise may be dependent for his business life on the procurement of ideas from other persons as well as the dressing up and portrayal of his self-conceptions; he may not find his own sufficient for survival. As counsel for the Writers Guild aptly say, ideas “are not freely usable by the entertainment media until the latter are made aware of them.” The producer may think up the idea himself, dress it and portray it; or he may purchase either the conveyance of the idea alone or a manuscript embodying the idea in the author’s concept of a literary vehicle giving it form, adaptation and expression. It cannot be doubted that some ideas are of value to a producer.

An idea is usually not regarded as property, because all sentient beings may conceive and evolve ideas throughout the gamut of their powers of cerebration and because our concept of property implies something which may be owned and possessed to the exclusion of all other persons. . . .

The principles above stated do not, however, lead to the conclusion that ideas

cannot be a subject of contract. As Mr. Justice Traynor stated in his dissenting opinion in *Stanley v. Columbia Broadcasting System* (1950), . . . 35 Cal.2d 653, 674, 221 P.2d 73: “The policy that precludes protection of an abstract idea by copyright does not prevent its protection by contract. Even though an idea is not property subject to exclusive ownership, its disclosure may be of substantial benefit to the person to whom it is disclosed. That disclosure may therefore be consideration for a promise to pay. . . . Even though the idea disclosed may be ‘widely known and generally understood’ [citation], it may be protected by an express contract providing that it will be paid for regardless of its lack of novelty.” . . .

In other words the recovery may be based on contract either express or implied. The person who can and does convey a valuable idea to a producer who commercially solicits the service or who voluntarily accepts it knowing that it is tendered for a price should likewise be entitled to recover. In so holding we do not fail to recognize that freelance writers are not necessarily members of a learned profession and as such bound to the exalted standards to which doctors and lawyers are dedicated. So too we are not oblivious of the hazards with which producers of the class represented here by defendants and their related amici are confronted through the unsolicited submission of numerous scripts on public domain materials in which public materials the producers through their own initiative may well find nuclei for legitimately developing the “stupendous and colossal.” The law, however, is dedicated to the proposition that for every wrong there is a remedy (Civ. Code, § 3523) and for the sake of protecting one party it must not close the forum to the other. It will hear both and seek to judge the cause by standards fair to both. To that end the law of implied contracts assumes particular importance in literary idea and property controversies.

The Law Pertaining to Contracts, Express, Implied-in-Fact and Implied by Law, and Quasi Contractual Obligations, as Related to Ideas and Literary Property. . . .

We agree that whether a contract be properly identified as express or as implied-in-fact or inferred from circumstances; or whether the bargain meets the subjective test of a meeting of minds or is held to reside in the objective evidence of words and acts with or without a meeting of minds; or whether the obligation be recognized as implied by law from acts having consensual aspects (and therefore often termed implied-in-fact); or whether the obligation be imposed by law because of acts and intents which, although tortious rather than consensual, should in justice give rise to an obligation resembling that created by contract and, hence, should be termed quasi-contractual, is important here to the extent that we recognize the situations and discriminate appropriately in the governing rules. . . .

If it were not for precedent we should hesitate to speak of an implied-in-fact contract. In truth, contracts are either made in fact or the obligation is implied in law. If made in fact, contracts may be established by direct evidence or they may be inferred from circumstantial evidence. The only difference is in the method of proof. In either case they would appear to be express contracts. Otherwise, it would seem that they, or the presumed contractual obligation, must be implied at law. A so-called “implied-in-fact” contract, however, as the term is used by some writers, may be found although there has been no meeting of the minds. Even an express contract may be found where there has been no meeting of minds. The classic example of this situation is set up by the parole evidence rule. The law accepts the objective evidence of the written contract as consti-

tuting the contract and, subject, of course, to certain exceptions, precludes oral evidence to show that the minds of the parties did not meet in the writing. Professor Williston recognizes in effect, if not specifically, that the law implies (or construes) contractual obligations in many cases where there is no true contract in the historically conventional sense and that such implied obligations are of the nature of, and governed by the rules applicable to, contracts termed implied-in-fact by many writers. In a paper published in 14 *Illinois Law Review* 85, 90, Mr. Williston says: "The parties may be bound by the terms of an offer even though the offered expressly indicated dissent, provided his action could only lawfully mean assent. A buyer who goes into a shop and asks and is given [told] the price of an article, cannot take it and say 'I decline to pay the price you ask, but will take it at its fair value.' He will be liable, if the seller elects to hold him so liable, not simply as a converter for the fair value of the property, but as a buyer for the stated price." . . .

Whether the resulting "contract" . . . is classified as express (as may be fictionized by the law's objective test) or as implied-in-fact (as also may be fictionized by the law) or whether in the same or slightly differing circumstances an obligation shall be "implied" and denominated "quasi contractual" because it is strong-armed by the law from non-consensual acts and intents, is probably important in California—and for the purposes of resolving the problems now before us—principally as an aid to understanding the significance of rulings and discussions in authorities from other jurisdictions. Here, our terminology and the situations for application of the pertinent rules are simplified by codification.

Our Civil Code declares that (§ 1619) "A contract is either express or implied"; (§ 1620) "An express contract is one, the terms of which are stated in words" and (§ 1621) "An implied contract is one, the existence and terms of which are manifested by conduct." The same code further provides that (§ 1584) "[T]he acceptance of the consideration offered with a proposal, is an acceptance of the proposal"; (§ 1589) "A voluntary acceptance of the benefit of a transaction is equivalent to a consent to all the obligations arising from it, so far as the facts are known, or ought to be known, to the persons accepting"; (§ 1605) "Any benefit conferred . . . upon the promisor, by any other person, to which the promisor is not lawfully entitled . . . is a good consideration for a promise"; and (§ 1606) "[A] moral obligation originating in some benefit conferred upon the promisor . . . is also a good consideration for a promise, to an extent corresponding with the extent of the obligation, but no further or otherwise." . . .

From what has been shown respecting the law of ideas and of contracts we conclude that conveyance of an idea can constitute valuable consideration and can be bargained for before it is disclosed to the proposed purchaser, but once it is conveyed, i.e., disclosed to him and he has grasped it, it is henceforth his own and he may work with it and use it as he sees fit. In the field of entertainment the producer may properly and validly agree that he will pay for the service of conveying to him ideas which are valuable and which he can put to profitable use. Furthermore, where an idea has been conveyed with the expectation by the purveyor that compensation will be paid if the idea is used, there is no reason why the producer who has been the beneficiary of the conveyance of such an idea, and who finds it valuable and is profiting by it, may not then for the first time, although he is not at that time under any legal obligation so to do, promise to pay a reasonable compensation for that idea—that is, for the past service of furnishing it to him—and thus create a valid obligation. . . . But, assuming legality

of consideration, the idea purveyor cannot prevail in an action to recover compensation for an abstract idea unless (a) before or after disclosure he has obtained an express promise to pay, or (b) the circumstances preceding and attending disclosure, together with the conduct of the offered acting with knowledge of the circumstances, show a promise of the type usually referred to as “implied” or “implied-in-fact.” . . .

Such inferred or implied promise, if it is to be found at all, must be based on circumstances which were known to the producer at and preceding the time of disclosure of the idea to him and he must voluntarily accept the disclosure, knowing the conditions on which it is tendered. Section 1584 of the Civil Code (“[T]he acceptance of the consideration offered with a proposal, is an acceptance of the proposal”) can have no application unless the offered has an opportunity to reject the consideration—the proffered conveyance of the idea—before it is conveyed. Unless the offered has opportunity to reject he cannot be said to accept. . . . The idea man who blurts out his idea without having first made his bargain has no one but himself to blame for the loss of his bargaining power. The law will not in any event, from demands stated subsequent to the unconditioned disclosure of an abstract idea, imply a promise to pay for the idea, for its use, or for its previous disclosure. The law will not imply a promise to pay for an idea from the mere facts that the idea has been conveyed, is valuable, and has been used for profit; this is true even though the conveyance has been made with the hope or expectation that some obligation will ensue. So, if the plaintiff here is claiming only for the conveyance of the idea of making a dramatic production out of the life of Floyd Collins he must fail unless in conformity with the above stated rules he can establish a contract to pay.

From plaintiff’s testimony, as epitomized above, it does not appear that a contract to pay for conveyance of the abstract photoplay idea had been made, or that the basis for inferring such a contract from subsequent related acts of the defendants had been established, at the time plaintiff disclosed his basic idea to the secretary. Defendants, consequently, were at that time and from then on free to use the abstract idea if they saw fit to engage in the necessary research and develop it to the point of a usable script. Whether defendants did that, or whether they actually accepted and used plaintiff’s synopsis, is another question. And whether by accepting plaintiff’s synopsis and using it, if they did accept and use it, they may be found to have implicitly—by the rules discussed—agreed to pay for whatever value the synopsis possessed as a composition embodying, adapting and implementing the idea, is also a question which, upon the present summary judgment record, is pertinent for consideration in reaching our ultimate conclusion. That is, if the evidence suggests that defendants accepted plaintiff’s synopsis, did they not necessarily accept it upon the terms on which he had offered it? Certainly the mere fact that the idea had been disclosed under the circumstances shown here would not preclude the finding of an implied (inferred in fact) contract to pay for the synopsis embodying, implementing and adapting the idea for photoplay production. . . .

The basic distinction between the rights in and to literary productions as they may exist at common law and as they are granted by statutory copyright is that the common law protects only a property right while the copyright statute grants a limited monopolistic privilege. (34 Am.Jur. 401, § 2.) Plaintiff here has no statutory copyright. His claim as to the synopsis, therefore, necessarily must rest in a common law property right or in contract. He has chosen to rest it in

contract. If plaintiff has a literary composition it may be the subject of a property right and its use by defendants, if established, could entitle him to remedies, notwithstanding the concessions he has made, which would be unavailable if he had only an idea to be appropriated or to be the subject of contract.

Literary property which is protectible may be created out of unprotectible material such as historical events. It has been said (and does not appear to have been successfully challenged) that “There are only thirty-six fundamental dramatic situations, various facets of which form the basis of all human drama.” (Georges Polti, “The Thirty-Six Dramatic Situations”; see also, Henry Albert Phillips, “The Universal Plot Catalog”; Eric Heath, “Story Plotting Simplified.”) It is manifest that authors must work with and from ideas or themes which basically are in the public domain. History both in broadly significant and in very personal aspects has furnished a wealth of material for photoplays. The Crusades, The French Revolution, The War Between the States, the lives, or events from the lives, of rulers, ministers, doctors, lawyers, politicians, and military men, among others, all have contributed. Events from the life of the late General William Mitchell are even now the basic theme of a current showing. Events from the life of Floyd Collins were avowedly the basic theme of plaintiff’s story. Certainly, it must be recognized that a literary composition does not depend upon novelty of plot or theme for the status of “property,” if it is entitled to that status at all. The terms “originality” and “novelty” have often been confused, or used without differentiation, or with meanings which vary with different authorities. We therefore suggest the sense in which we use them. A literary composition may be original, at least in a subjective sense, without being novel. To be original it must be a creation or construction of the author, not a mere copy of another’s work. The author, of course, must almost inevitably work from old materials, from known themes or plots or historical events, because, except as knowledge unfolds and history takes place, there is nothing new with which to work. But “Creation, in its technical sense, is not essential to vest one with ownership of rights in intellectual property. Thus, a compiler who merely gathers and arranges, in some concrete form, materials which are open and accessible to all who have the mind to work with like diligence is as much the owner of the result of his labors as if his work were a creation rather than a construction.” . . .

Writing—portraying characters and events and emotions with words, no less than with brush and oils—may be an art which expresses personality. Accordingly, the language of Mr. Justice Holmes, speaking for the Supreme Court in a copyright case relating to circus posters is apropos: “Others are free to copy the original. They are not free to copy the copy. . . . The copy is the personal reaction of an individual upon nature. Personality always contains something unique. It expresses singularity even in handwriting, and a very modest grade of art has in it something irreducible, which is one man’s alone. That something he may copy-right unless there is a restriction in the words of the act.” (*Bleistein v. Donaldson Lithographing Co.* (1903), 188 U.S. 239, 249–250, 23 S.Ct. 298, 47 L.Ed. 460.) As indicated, the theme of a writer must almost inevitably be neither novel nor original. The finished work probably will not be novel because it deals only with the public domain or public commons facts. But the completed composition may well be the original product of the researcher who compiles or constructs it. He gives it genesis, and genesis in this sense requires only origin of the composition, not of the theme. The composition will be the property of the author. Whether

it possesses substantial value, and to what extent, if any, it may be entitled to copyright protectibility, may be quite another matter.

The time of the author; his resourcefulness in, opportunity for and extent of, research; his penetration in perception and interpretation of source materials; the acumen of his axiological appraisals of the dramatic; and his skill and style of composition, including the art of so portraying accurate narration of events long passed as to arouse vivid emotions of the present, are all elements which may contribute to the value of his product. Some of those elements in varying quanta and proportions must exist in any literary composition; thereby the composition reflects the personality of the author. And any literary composition, conceivably, may possess value in someone's estimation and be the subject of contract, or, conversely, it may be considered totally devoid of artistic, historic, scientific or any practical value. Obviously the defendants here used someone's script in preparing and producing their photoplay. That script must have had value to them. As will be hereinafter shown, it closely resembles plaintiff's synopsis. Ergo, plaintiff's synopsis appears to be a valuable literary composition. Defendants had an unassailable right to have their own employees conduct the research into the Floyd Collins tragedy—an historical event in the public domain—and prepare a story based on those facts and to translate it into a script for the play. But equally unassailable (assuming the verity of the facts which plaintiff asserts) is plaintiff's position that defendants had no right—except by purchase on the terms he offered—to acquire and use the synopsis prepared by him. . . . We are satisfied that, for the purposes of this appeal, plaintiff's dictation to defendant Wilder's secretary of the synopsis of his composition, embodying the core of his idea and his concept of a desirable entertainment media adaptation of it, is equivalent to submission of the synopsis in typed form.

Under the principles of law which have been stated it appears that for plaintiff to prevail on this appeal the record must indicate either that the evidence favors plaintiff, or that there is a triable issue of fact, in respect to the following questions: Did plaintiff prepare a literary composition on the Floyd Collins tragedy? Did he submit the composition to the defendants for sale? Did the defendants, knowing that it was offered to them for sale, accept and use that composition or any part thereof? If so, what was the reasonable value of the composition?

It is not essential to recovery that plaintiff's story or synopsis possess the elements of copyright protectibility if the fact of consensual contract be found. . . .

The Law Applied to the Facts. Here, as conceded by defendants for purposes of their summary judgment motion, plaintiff, in accordance with his testimony, submitted his synopsis to them through defendant Wilder's secretary and such submission included a declaration by both plaintiff and the secretary that defendants were to pay for his story if they used it. The mere fact that at the time of plaintiff's first telephone call to Wilder's office he described the central idea of the story to the secretary in response to her insistence that he explain the purpose of his call would not as a matter of law deprive plaintiff of the right to payment for the story as discussed by him and the secretary when he again spoke with her two days later and at her request read his synopsis to her, for her to take down in shorthand for defendants' consideration; the two conversations appear to have been parts of a single transaction and must be construed as such. The affidavits submitted on behalf of defendants by Wilder and by an officer of Paramount to the effect that neither Wilder nor Wilder's secretary had authority to negotiate contracts for the purchase of scripts do not compel the conclusion as

a matter of law that an implied (inferred) contract binding defendants to pay for plaintiff's story was not created if (as is hereinafter shown) the record discloses any substantial evidence indicating that defendants did accept and make use of plaintiff's composition. . . .

With respect to whether defendants used plaintiff's composition, it may be first noted that defendants presented no affidavits in any way denying such use, but merely exhibited their photoplay to the court for purposes of comparison between plaintiff's synopsis and defendants' production. Defendants also produced extracts from a magazine and newspaper to which plaintiff had already freely testified in his deposition that he had referred in preparing his story. A script of the photoplay was, however, attached to plaintiff's complaint as an exhibit, and plaintiff has provided an outline comparing his synopsis with defendants' scenario. Defendants in their brief have likewise outlined the story of their photoplay.

In defendants' motion picture script the trapped man expresses a fear of the curse of dead Indians, as did Collins in the fictional portion of plaintiff's synopsis. Other similarities between plaintiff's story and the scenario of defendants' picture are these:

Defendants' Scenario

Cave where Mimosa trapped was on property owned by him and father. Mimosa operated Indian Curio Shop. Mimosa cave open to tourist trade. Mimosa's difficulty in extricating himself from cave was due to large flat slab wedged against wall of his cell, which slanted across him, pinning him down.

Mimosa's father calls sheriff.

Tatu is first reporter to arrive; tells Mimosa not to worry, as "they'll get you out."

Tatu suggests setting up a drill on top of the mountain and going straight down; this is done.

Local miners object that drilling is unnecessary.

Tatu comments that the news story is "Big. As big as they come, I think. Maybe bigger than Floyd Collins," and refers to fact that reporter on Collins story received a Pulitzer Prize.

Carnival trucks are described, and persons operating concessions are shown; excursion train is referred to; rescue equipment assembled and public address system used.

Mimosa's father protests.

Doctor diagnoses pneumonia.

Tatu is only reporter who saw Mimosa.

Other reporters are suspicious of the "whole set-up and criticized and complained about Tatu's control of the situation"; one threatened to "take this all the way to Santa Fe. To the Governor."

Mimosa dies.

Plaintiff's Story

Cave where Collins trapped was underneath father's farm.

Collins sold Indian relics to tourists.

Crystal Cave open to tourist trade.

Rock wedge fell across Collins' left ankle and pinioned both legs, holding him prisoner.

Collins' father spread alarm.

Miller is first reported to reach Collins, and tells him, "The world is coming, old man."

Lt. Bourdon says, "There is only one way to save Collins without maiming him, and that is to sink a shaft to him."

Opposition develops between the natives and the rescue crew.

Collins story carried on front page of Louisville newspaper every day; Miller was later awarded Pulitzer Prize.

Cave City took on appearance of Klondike gold rush town; special reporters came; special trains stopped to unload travelers and equipment; occasion regarded as picnic by many.

Collins' father resented the behavior.

Doc Haslet fears pneumonia.

Miller is only reporter who saw Collins.

Some reporters make accusations expressing strong suspicions with respect to lack of good faith in rescue of Collins; governor summons Board of Military Inquiry; two reporters considered whole thing a giant publicity scheme and hoax. Collins dies.

For the purposes of appellate review of this summary judgment proceeding it is apparent from the comparisons above tabulated, and from the outlines which are set out in the margin, that a factual issue, rather than one of law, is presented as to whether defendants used plaintiff's synopsis or developed their production independently thereof. . . . Particularly does this appear true in view of the fact that plaintiff submitted his synopsis to defendants in November 1949, and that as early as July 1950, the latter were producing their photoplay which, despite their assertion that it "does not purport to be a biography of the life of Floyd Collins. . . . Its characters, plot and development are wholly imaginative," obviously does bear a remarkable similarity to plaintiff's story both in respect to the historical data and the fictional material originated by plaintiff.

It has been suggested that this court view the photoplay (which defendants in their brief offer to make available) in order to determine whether a triable issue of fact exists. The scope of the implications in that suggestion is persuasive to us that the issues here are not for summary disposition. In the light of the conclusions we have reached on the evidence already discussed it appears that viewing the photoplay would relate merely to the weight of the evidence. . . . We therefore find it unnecessary to view the film.

At the trial the trier of fact should proceed with nicety of discrimination in applying the evidence to resolve the issues. Inasmuch as plaintiff's story is taken from the public domain, and as both his story and that of defendants are in principal substance historically accurate, it must be borne in mind that the mere facts that plaintiff submitted and offered to sell to defendants a synopsis containing public domain material and that thereafter defendants used the same public domain material, will not support an inference that defendants promised to pay for either the synopsis or for the idea of using the public domain material. The plaintiff can have no property right in the public domain facts concerning Floyd Collins or in the abstract idea of making a photoplay dramatizing those facts. On the other hand, the fact that plaintiff used the public domain material in constructing his story and synopsis would afford no justification whatsoever for defendants to appropriate plaintiff's composition and use it or any part of it in the production of a photoplay—and this, of course, includes the writing of a scenario for it—without compensating plaintiff for the value of his story. And the further

fact, if it be a fact, that the basic idea for the photoplay had been conveyed to defendants before they saw plaintiff's synopsis, would not preclude the finding of an implied (inferred-in-fact) contract to pay for the manuscript, including its implemented idea, if they used such manuscript. . . .

NOTES

1. Unlike the situation in the *Desny* case, the idea-submitter in *Mann v. Columbia Pictures, Inc.*, 128 Cal.3d 628, 180 Cal.Rptr. 522 (1982) did not condition submission of her work on appropriate payment. Ms. Mann (apparently, an amateur) wrote *Women Plus*, "a brief description of six characters in a beauty salon setting, together with a short narration of a number of scenes" which she registered with the Writers' Guild of America (registration not being limited to WGA members.) Ms. Mann had a friend who in turn had a friend (Caplan) who was described to Ms. Mann as "an important man at Columbia [Pictures]" who would have Ms. Mann's work "reviewed by a Columbia reader" as a favor to Ms. Mann. Although Mann never stated it, she expected to be paid if her work was used. In fact, Caplan was a "production manager" (i.e., production cost calculator) for an independent company which had a relationship with Columbia. He had no involvement with creative matters or with compensation to creative personnel. Caplan turned Ms. Mann's work over to a fellow employee of the production company. There was no record of a rejection letter with respect to *Women Plus*, nor was Ms. Mann's material found in Columbia's records. Some four years after Ms. Mann's submission, Columbia released *Shampoo*. Ms. Mann recognized several similarities between *Shampoo* and *Women Plus*, and sued for breach of an implied-in-fact contract. A jury verdict for Ms. Mann was set aside by the trial judge, who granted judgment n.o.v. to the defendants. The Court of Appeal affirmed. The court characterized Ms. Mann's work as "no more than a collection of ideas which was never developed in the form of a script or a story . . . Mann's abstract ideas are not literary property. [citing *Desny v. Wilder*]. The material allegedly used by defendants must also constitute protectible property if Mann is to recover in quasi-contract. (*Weitzenkorn v. Lesser* [1953] 40 Cal.2d 778, 795.) "Therefore, the proof necessary to recover upon the theory of a contract implied in law is the same as that required by the tort action for plagiarism." (*Ibid.*) The lower court correctly determined that "there is no substantial similarity" between *Shampoo* and plaintiff's outline as to form and manner of expression, the portion which may be protectible property. [Therefore, Ms. Mann] cannot recover upon a quasi-contractual theory for the alleged use of her ideas. (*Ibid.*; 1 Witkin, Summary of Cal. Law [8th ed. 1973] Contracts, § 4, pp. 31-32.) . . . [Since the trial court properly rendered judgment for defendants on plagiarism,] the trial court's dismissal of the count for quasi-contract is necessarily affirmed [because of the absence of evidence that Ms. Mann's work had reached Warren Beatty and Robert Towne, the creators of *Shampoo*. There was, on the other hand, ample evidence of independent prior creation of the *Shampoo* screenplay by them.] . . .

"For this court to find that Mann and Columbia entered an implied-in-fact contract, plaintiff must demonstrate that she clearly conditioned her offer of *Women Plus* upon an obligation to pay for it, or its ideas, if used by Columbia; and Columbia, knowing the condition before it knew the ideas, voluntarily accepted their disclosure (necessarily on the specified basis) and found them valuable and used them. [Citing *Desny*] . . . [Moreover, if] the two defendants did not use her ideas in the 'shooting script,' the fact that the motion picture may strongly resemble *Women Plus* does not afford plaintiff a cause of action against Columbia for breach of an implied contract. . . ."

2. The abstract (and cliched) nature of the plaintiffs' idea was a decisive factor in *Robinson v. Viacom International*, 1995 WL 417076, 1995 CCH Copyright Law Decisions ¶ 27,480 (S.D.N.Y. 1995), which discussed the idea/expression dichotomy discussed at the beginning of this chapter, and which illustrates the majority rule requiring novelty as a condition to an implied contract. Summary judgment was granted to Viacom in a case in

which plaintiffs claimed they were entitled to compensation for misappropriation of an idea for a sitcom. The premise was that a 1980s family was haunted by “America’s favorite sitcom family” of the 1950s. The earlier family was visible only to the 1980s family. The plaintiffs claimed misappropriation of (1) plot, (2), characters, (3) total concept and feel (i.e., mood), (4) setting, (5) format, and (6) pace. However, the court stated, “[J]uxtaposition of the two families constitutes an idea, not an expression, and plaintiffs may not be granted a monopoly in this idea, *even if the plaintiffs’ formulation is novel.*” (Emphasis added.) Plaintiffs’ plot ideas were not sufficiently developed to merit protection, especially in light of their derivative nature (most actually constituting cliches gleaned from a long line of family-based sitcoms—not unlike the situation in the *Murray* case (below)). There was no character development, and “the broad theme of a 1950’s sitcom family interacting with a contemporary family is an unprotectible idea.” The court similarly minimized the significance of the setting (middle class suburb), format (comedy with prologue), pace (up-tempo), and other elements. In addition to rejecting plaintiffs’ claim of a contract implied in fact, the court granted summary judgment to the defendants on plaintiffs’ deceptive business practices claim (involving New York General Business Law §§ 349–350 and their Lanham Act claim. Plaintiffs’ attempt to revive their claim in state court was also unavailing, the First Department affirming dismissal of plaintiffs’ action because they had failed to rebut defendants’ prima facie showing that plaintiffs’ idea was not novel. *Robinson v. Viacom International*, 242 A.D.2d 481, 663 N.Y.S.2d 817 (1997).

3. In *Nadel v. Play-by-Play Toys*, 200 F.3d. 368, 2000 WL 310 268 (2d Cir. 2000), the Southern District had granted summary judgment to the defendant, holding that New York law required that the idea must be totally novel, not simply that the idea be novel as to the defendant. However, the Second Circuit interpreted several earlier decisions by the New York courts as permitting recovery if an idea were novel as to the defendant, even if not totally original with the plaintiff. Moreover, plaintiff contended that pursuant to industry custom and usage, ideas were assumed to be disclosed on a confidential basis, with compensation to the idea-submitter if an idea was used. Because of the issues concerning “particular” and “general” novelty, and because of plaintiff’s claims that a contract existed (either express, or implied in fact), the Second Circuit reversed and remanded. In an idea-submission case, the court said, general novelty is required, whereas in a misappropriation/breach of contract case, novelty to the defendant is sufficient.

4.1.2.2 Confidential Relationship

As indicated above, there is a conflict among the states concerning idea submission claims. The majority rule is the New York rule applied in the *Murray* case which held that an idea must be novel to be protected. The minority rule is the California rule applied in *Blaustein* which held that non-novel ideas may be protected by contract too, if a confidential relationship exists between the plaintiff and the defendant. When you read these cases, consider which rule makes more sense to you and do so from two perspectives. First, consider which rule would make more sense if you (or your client) were an aspiring screenwriter. Then consider which rule would make more sense if you (or your client) were a movie or television production company that is bombarded with thousands of ideas every year (many of which are unsolicited and unwanted).

Blaustein v. Burton, 9 Cal.App.3d 161, 88 Cal.Rptr. 319 (1970)

FRAMPTON, ASSOCIATE JUSTICE PRO TEM

Appellant, in his deposition, testified that he had been in the motion picture business since 1935. After serving as a reader, a story editor, the head of a story department, and an editorial supervisor, he became a producer of motion picture films in 1949. The films he has produced include *Broken Arrow*; *Mr. 880*; *Half*

Angel; Just One More Chance; Take Care of My Little Girl; The Day the Earth Stood Still; The Outcasts of Poker Flat; Don't Bother to Knock; Desiree; The Racers; Storm Center; Cowboy; Bell, Book and Candle; The Wreck of the Mary Deare; Two Loves; The Four Horsemen of the Apocalypse; and Khartoum. The functions of a producer of a motion picture are to (1) generate the enthusiasm of the various creative elements as well as to bring them together; (2) search out viable locations which would be proper for the artistic side of the production and would be proper from the logistic physical production side; (3) create a budget that would be acceptable from the physical point of view as well as satisfactory from the point of view of implementing the requirements of the script; (4) make arrangements with foreign government where the photography would take place; (5) supervise the execution of the script, the implementation of it onto film; (6) supervise the editing of all the production work down through the dubbing process and the release printing process, at least through the answer print process with Technicolor in this case; (7) the obligation of consulting with the United Artists people on advertising and publicity; (8) arrange casting; (9) engage the interests of the kind of star or stars that they (the United Artists' people) would find sufficiently attractive to justify an investment, and (10) develop the interest of a proper director.

During 1964, appellant conceived an idea consisting of a number of constituent elements including the following: (a) the idea of producing a motion picture based upon William Shakespeare's play *The Taming of the Shrew*; (b) the idea of casting respondents Richard Burton and Elizabeth Taylor Burton as the stars of this motion picture; (c) the idea of using as the director of the motion picture Franco Zeffirelli, a stage director, who at that time had never directed a motion picture and who was relatively unknown in the United States; (d) the idea of eliminating from the film version of the play the so-called "frame" (i.e., the play within a play device which Shakespeare employed), and beginning the film with the main body of the story; (e) the idea of including in the film version the two key scenes (i.e., the wedding scene and the wedding night scene) which in Shakespeare's play occur offstage and are merely described by a character on stage; (f) the idea of filming the picture in Italy, in the actual Italian settings described by Shakespeare.

On April 6, 1964, appellant met with Hugh French, an established motion picture agent who was then, and was at the time of the taking of the deposition (March 20, 1968), the agent for respondent Richard Burton. Prior to such meeting, appellant knew that Mr. French was Mr. Burton's agent and Mr. French knew that appellant was a motion picture producer, as appellant and Mr. French had been involved in business dealings together in the past. At such meeting, appellant first asked Mr. French "if he could tell me anything about the availability of Mr. and Mrs. Burton." Mr. French replied: "Well, they have many commitments; but, as you know, they are always interested in good ideas or good scripts or good projects." Appellant then replied: "Well, I have a thought about a picture for the Burtons, but it makes no sense to discuss it unless you would be interested in it or unless you tell me that they would be available to consider a production beyond their current commitments." Mr. French responded: "No, indeed, I would like to hear what you have in mind." Appellant then said that he thought there would be something uniquely attractive at that time to do a film based on Shakespeare's "Taming of the Shrew" with respondents as the stars of the picture. Mr. French's reaction was "instantaneous and affirmative." Ap-

pellant then asked Mr. French if the idea had ever been previously discussed, and Mr. French replied no, that to his knowledge it had not been. Mr. French further stated that he would discuss appellant's idea with Mr. Burton, and would try to arrange a meeting in New York between appellant and the Burtons.

Thereafter, at Mr. French's suggestion and with tickets arranged for by Mr. French, appellant attended the opening of Mr. Burton's stage production of *Hamlet* in New York City on April 9, 1964. At that time, Mr. French introduced appellant to Mr. Burton as "the man who had been talking about *Taming of the Shrew*." Because of Mr. Burton's preoccupation with his stage production, it was not possible at that time for appellant to have a private meeting with the Burtons, so appellant proceeded on to London, where he was engaged in production work on another motion picture.

Upon arriving in London, appellant decided to explore the possibility of using the services of Franco Zeffirelli as the director of *The Taming of the Shrew* motion picture. Accordingly, on May 11, 1964, appellant met with John Van Essen, Mr. Zeffirelli's agent, in London. Appellant related his idea to Mr. Van Essen, and his disclosure thereof to Mr. French. To appellant's inquiry as to the possible availability of Mr. Zeffirelli, Mr. Van Essen replied "that he thought it was just a splendid idea, that he was absolutely certain that his client would agree with his reaction, but that he would telephone him in France and discuss it with him as quickly as he could reach him. . . ." Thereafter, appellant, together with Mr. Van Essen, met with Mr. Zeffirelli in Paris on May 22, 1964. Appellant there related his idea in some detail to Mr. Zeffirelli, and Mr. Zeffirelli's response was: "I can't tell you how much I would like to do it, but why would the Burtons accept me?" Appellant replied ". . . that is my job, to generate their enthusiasm for you . . . [and] I think there is a very good chance of my persuading them to accept you."

On May 25, 1964, appellant, while still in London, telephoned to Mr. French in Los Angeles, suggested the idea of Mr. Zeffirelli acting as director of the proposed motion picture, told of the meeting with Zeffirelli, and suggested that this information be communicated to Mr. and Mrs. Burton. . . .

Upon his return to Los Angeles, appellant met with Martin Gang on June 25, 1964. Mr. Gang at that time was appellant's lawyer. Mr. Gang's firm was also the attorneys for respondents Richard Burton and Elizabeth Taylor Burton. Aaron Frosch, a New York lawyer, acted as general counsel for Mr. and Mrs. Burton. At the meeting between appellant and Mr. Gang, appellant disclosed his above described idea, and related his dealings up to that point with Mr. French. Appellant told Mr. Gang that "Mr. French has so far been unable to arrange a meeting" with Mr. and Mrs. Burton. Mr. Gang offered to attempt to arrange such a meeting. Mr. Gang thereupon phoned Aaron Frosch and informed him of appellant's desire to meet with Mr. and Mrs. Burton and of the reasons for such a meeting. Mr. Frosch stated that he believed that he could arrange such a meeting, suggesting that appellant phone him upon appellant's arrival in New York.

Upon his arrival in New York, appellant phoned Mr. Frosch's secretary on June 29, 1964, and was told to contact Richard Hanley, appointments secretary for Mr. and Mrs. Burton. Appellant did phone Mr. Hanley, who recognized him and stated "It looks fine. Richard and Elizabeth know you are here and we will get it set up as quickly as we can." On the afternoon of June 30, 1964, Mr. Hanley phoned appellant and said: "Can you come up to see them?" Appellant proceeded to Mr. and Mrs. Burton's hotel suite, was introduced to Mr. Burton

by Mr. Hanley, and then met for a period alone with Mr. Burton. Later, Mrs. Burton joined them. At the beginning of the conversation between appellant and Mr. Burton regarding *The Taming of the Shrew*, Mr. Burton commented upon what a good idea it was for Mrs. Burton and him to make such a motion picture, adding, "I don't know how come we hadn't thought of it."

After Mrs. Burton joined them, appellant explained in full his ideas regarding the proposed project. This included the use of Mr. Zeffirelli as the director. Mr. Burton said of Zeffirelli "I think he is a marvelous idea. The idea of who directs this picture is naturally very important, and I just think you have made a very good choice. And you have met with him?," to which appellant replied in the affirmative. They then discussed the cost of the film, and of appellant's prior discussion with Mr. Zeffirelli relative to the cost area. Mr. Burton stated "Well, certainly with you as an experienced producer, you can contribute that part of it to him."

There then was a discussion of possible conflicting commitments, and Mr. Burton stated with reference to another project, "Well, look, we are not actually committed to that, and I do believe that could be pushed back anyway. This idea is such a good one and this picture is so important that we do it that I think we should plan on doing it. And we can try to juggle our other productions to fit this." Toward the end of the meeting, Mr. Burton stated, "Well, let's plan to go ahead now. Elizabeth and I would like to do this. We think Zeffirelli is a good idea. We will accept him. You tell me you have worked out a potential deal with him." Appellant had discussed Mr. Zeffirelli's connection with the proposal with Mr. Van Essen. Mr. Burton instructed appellant to work out appropriate arrangements with Aaron Frosch. The meeting ended with a mutual expression of looking forward to working together.

After the above meeting, and before appellant left the United States, he called Martin Gang in California from New York City. In this telephone conversation, he told Mr. Gang "Look, you do whatever you think is right about structuring a deal with Aaron Frosch, and you know I am not going to be difficult about my end of this because this is a very important picture to me and I don't want you to feel that we have got to fight with anybody, whatever might come up, about any fees and my participation and so forth. It's a picture I want very badly to do, and please keep me in touch." Mr. Gang replied, "Congratulations. I will get onto it right away and keep you informed."

Upon appellant's return to London, where he was working on another motion picture, he met with Mr. Van Essen and proceeded further with the negotiation of a deal for the services of Mr. Zeffirelli as director. Appellant reported progress made in these negotiations in a letter dated July 7, 1964, which he sent to Martin Gang.

On August 11, 1964, appellant received a phone call in London from Mickey Rudin, who was then a partner in Mr. Gang's law firm. Mr. Rudin worked in close contact with Mr. Frosch in connection with *The Taming of the Shrew*. Mr. Rudin represented Mr. and Mrs. Burton in connection with *The Taming of the Shrew*, and as far as Mr. Gang knows, has continued to do so even after Mr. Rudin disassociated from the Gang firm. In the phone call of August 11, 1964, appellant asked Mr. Rudin what percentage share of the gross receipts from the motion picture *The Taming of the Shrew* appellant would receive if he were paid no guaranteed fee; what percentage share he would receive if he were paid a guaranteed fee of \$50,000, and what percentage share he would receive if he

were paid a guaranteed fee of \$100,000. Mr. Rudin replied that he would think about it and let appellant know.

About November 27, 1964, appellant “felt that there was nothing to do but wait until the Burtons are in a position to and have an inclination to make a commitment.”

On December 30, 1964, appellant met with Mr. Gang and Mr. Rudin in Mr. Gang’s office in Los Angeles. At this meeting appellant learned that his position in the project was in jeopardy. At this time both Mr. Rudin and Mr. Gang advised appellant that he had no legal rights in the project, and appellant “simply accepted that.”

In March 1965, a meeting was held in Dublin, Ireland, where Mr. Burton was filming another motion picture, attended by Mickey Rudin, among others. The meeting concerned *The Taming of the Shrew* project, including appellant’s participation in connection therewith. Following this meeting, Mr. Rudin stopped off in London, en route back to Los Angeles, and on March 18, 1965, phoned appellant. In that phone conversation, Mr. Rudin stated to appellant that “[he] might not be the producer if the picture is ever made.” Mr. Rudin further stated, “under any conditions, however, there would be a reward for your contribution to the project.” On March 20, 1965, appellant addressed a letter to Messrs. Rudin and Gang in which he said in part: “There’s no point rehashing the various elements involved; nor is there any point attempting to ‘try the case,’ particularly with my own attorney. I realize I must simply accept whatever Aaron Frosch and you agree is proper ‘reward’ for my contribution. But it’s important to me, Mickey, that you understand I can never consider any such payment to be a satisfactory substitute for the function that has been denied me on a project I initiated.” In conversations with Mr. Van Essen (face to face) and with Mr. Zeffirelli (via telephone) on March 25, 1965, appellant was advised that the suggestion that appellant not be the producer of the film had come from “the other side” and from “the Burton lawyer.” Appellant understood this reference to be directed toward Mr. Aaron Frosch and so advised both Mr. Zeffirelli and Messrs. Gang and Rudin.

Upon Mr. Rudin’s return to Los Angeles, he reported events at the Dublin meeting to his then partner, Martin Gang. Mr. Gang wrote to appellant on April 27, 1965, stating that Mr. Rudin had reported to him that “there is no question in anybody’s mind that this was your idea, of *Taming of the Shrew* and bringing Zeffirelli in was your idea, and this is so recognized by all the principals, including Mr. Burton and Mr. Zeffirelli.”

In December 1965, appellant heard rumors of a “deal” being made for the production of *The Taming of the Shrew* involving the respondents and was informed by Mr. Gang that discussions to this effect were then taking place with Columbia Pictures Corporation. In a letter to Mr. Gang dated January 3, 1965, but, in fact, written and sent on January 3, 1966, appellant suggested the possibility of informing Columbia of his participation in the project, noting that “Burton has acknowledged the obligation involved,” and stating, “I should imagine Columbia wouldn’t hesitate to acknowledge Burton’s (and Zeffirelli’s) obligation to me as an obligation of the production—provided it’s discussed at the proper time, which is during the negotiations of the entire deal.” Mr. Gang’s response to this suggestion was to advise appellant against contacting Columbia since by doing so “he might upset the possibility of any deal being made because Columbia wouldn’t want to get involved in litigation, and that if he wanted to

get any rewards out of it for any reason, without giving any legal opinions, that it would be best not to upset that apple cart.” Appellant did not communicate with Columbia.

Thereafter, a motion picture based upon William Shakespeare’s play *The Taming of the Shrew* was produced and exhibited commencing in or about March 1967. The motion picture stars respondents Richard Burton and Elizabeth Taylor Burton, and is directed by Franco Zeffirelli. The motion picture was financed and distributed by Columbia Pictures Corporation, although at the time of taking Mr. Gang’s deposition (March 26, 1968), the formal contract between Columbia and the respondents remained to be completed. Mr. Rudin has represented Mr. and Mrs. Burton in the negotiations with Columbia. The motion picture as completed utilizes the following ideas disclosed by appellant to respondents: (1) It is based upon the Shakespearean play *The Taming of the Shrew*; (2) it stars Elizabeth Taylor Burton and Richard Burton in the roles of Katherine and Petruchio, respectively; (3) the director is Franco Zeffirelli; (4) it eliminates the “frame,” i.e., the play within a play device found in the original Shakespearean play, and begins with the main body of the story; and (5) it includes an enactment of the two key scenes previously referred to by appellant which in Shakespeare’s play occur off-stage.

In addition, the film was photographed in Italy, although not in the actual locales in Italy described by Shakespeare.

Respondents have paid no monies to appellant, nor have they accorded him any screen or advertising credit.

Respondents, while not challenging the foregoing statement of facts, except to say that they do not acquiesce in the claimed “characterizations” and “conclusions” contained therein, urge that critical facts have been omitted therefrom. These critical facts, according to respondents, as revealed by the record, are as follows: In connection with appellant’s meeting on April 6, 1964, with Hugh French, motion picture agent for respondent Richard Burton, appellant, was, according to his own testimony, familiar with the function of an agent for an established star in the motion picture industry. Appellant was aware of the role usually played by an agent for an established star, which was to screen projects submitted to the star, in turn submitting them to the star for a determination of interest. If there is interest, the agent usually pursues it further on the star’s behalf.

Appellant was aware that an agent for a major star cannot commit the star without the star’s approval. This is the practice in very close to 100 percent of the cases and in that sense differs from other agencies. The “few cases” in which the star permits his agent to make commitments on his behalf “are very rare.”

Appellant testified in his deposition that there is nothing unique about doing Shakespeare on the screen. It has been done many times. It has been done by leading stars of the calibre of Laurence Olivier. Respondent Richard Burton has himself previously appeared in a motion picture made of Shakespeare’s *Hamlet*. Shakespearean productions in motion picture form have been made in the United States, with leading stars, and also in England, the Soviet Union and other countries of the World.

Appellant testified that there is nothing unique about the idea of making a motion picture entitled *The Taming of the Shrew*, based on Shakespeare’s play of that title. Such has been done in the United States before the making of the film here in issue, and the earlier film featured in its leading roles (Petruchio

and Katherine) stars who were then married to each other and who were perhaps the leading idols of the screen at the time, Mary Pickford and Douglas Fairbanks. The Pickford-Fairbanks film *The Taming of the Shrew* was done in the 1930's. The declaration of Norman B. Rudman filed in support of the motion disclosed that the earlier version of the film also (1) eliminated the "frame" (the play within a play device utilized by Shakespeare), and (2) depicted on screen the wedding night scenes which in the Shakespearean original occurs off-stage and are merely described by narration.

Appellant testified in his deposition that there was nothing unique or unusual about doing *The Taming of the Shrew* with two of the leading actors of the time, in the sense that it had been done once before, but "there was something unusual about the particular notion of doing it under other circumstances." There is nothing unique about a stage director of good repute coming directly from the stage to motion pictures and directing a major motion picture. Such has been done often in the past by such directors as Rouben Mamoulian, Josh Logan, Danny Mann, Orson Welles, Elia Kazan, and by Mike Nichols, who directed the film *Who's Afraid of Virginia Woolf*, which starred the respondents in its leading roles, as his first film production.

Appellant testified further in his deposition that there is nothing unique about a non-American director directing English speaking actors in a film. Zeffirelli speaks quite good English, was distinguished for his directorial work in the field of opera and had done many stage productions in different languages in Italy, France and England. Zeffirelli was well known and distinguished as a director of at least one Shakespearean production, *Romeo and Juliet*, prior to his direction of the respondents in *The Taming of the Shrew*.

Appellant testified further, by way of deposition, that he asked Mr. French to communicate with the Burtons to ascertain whether or not they would be interested in doing *The Taming of the Shrew*. Appellant was interested in this from a business point of view so that he might have an interest in the film as a producer. One of appellant's objects was to negotiate a co-production or joint venture agreement with respondents under which he would be engaged as producer of the film under specific terms and conditions, and respondents would be committed to star in the film, their services to begin on a given start date. Appellant's company and respondents or their company would be co-venturers and co-owners of the film. The negotiations did not result in a co-production or joint venture agreement.

Appellant testified further, by way of deposition, that his interest in the possibility of using the services of Franco Zeffirelli as director of the motion picture was based upon Zeffirelli's potential in contributing to the commercial success of the picture to such extent that appellant could point out its commercial potential to a possible distributor whose prime interest would be commercialism. The key elements of the picture, so far as appellant was concerned, besides the play itself, were Mr. and Mrs. Burton to play the leads. In appellant's letter of July 11, 1964, addressed to Mr. Martin Gang, his attorney, he stated that if Mr. Zeffirelli were not available as director of the film, respondent Burton might himself direct the film; the only requirement was that there be a top-flight director.

In appellant's first meeting with John Van Essen, Zeffirelli's agent, which occurred in London on May 11, 1964, he told Van Essen that interest in the project had been expressed by the Burtons' agent, and by the Burtons through their

agent, but that nothing had been done beyond that and that appellant had not yet met with the Burtons personally to discuss the subject. Appellant urged Mr. Van Essen to discuss the matter with Zeffirelli, but did not enjoin the former from discussing it with others as such an injunction is implicit in any discussion with an agent. Before meeting the Burtons, appellant had possibly discussed the matter of the picture informally with one David Chasman of United Artists.

When Mr. Gang, at appellant's request, telephoned Aaron Frosch on June 25, 1964, to assist appellant in obtaining an audience with the Burtons, Mr. Frosch had already known about the proposal of the Burtons doing a film *The Taming of the Shrew* because of appellant's approach to Mr. Zeffirelli, who was also a client of Mr. Frosch's office.

Appellant, since the meeting with respondents of June 30, 1964, has not seen them personally nor had any conversations with them. He has no written contract in connection with the proposed project signed by respondents, or either of them, or any agent of the respondents wherein he was promised the position of producer of the film *The Taming of the Shrew*. . . .

The rights of an idea discloser to recover damages from an idea recipient under an express or implied contract to pay for the idea in event the idea recipient uses such idea after disclosure is discussed in *Desny v. Wilder*, 46 Cal.2d 715, 731-739 [299 P. 2d 257]. . . .

It is held that ". . . if a producer obligates himself to pay for the disclosure of an idea, whether it is for protectible or unprotectible material, in return for a disclosure thereof he should be compelled to hold to his promise. There is nothing unreasonable in the assumption that a producer would obligate himself to pay for the disclosure of an idea which he would otherwise be legally free to use, but which in fact, he would be unable to use but for the disclosure.

"The producer and the writer should be free to make any contract they desire to make with reference to the buying of the ideas of the writer; the fact that the producer may later determine, with a little thinking, that he could have had the same ideas and could thereby have saved considerable money for himself, is no defense against the claim of the writer. This is so even though the material to be purchased is abstract and unprotected material." (*Chandler v. Roach*, 156 Callope.2d 435, 441-442 [319 P. 2d 776].)

An idea which can be the subject matter of a contract need not be novel or concrete. (*Donahue v. Ziv Television Programs, Inc.*, 245 Cal.2d 593, 600 [54 Cal.Rptr. 130]; *Minniear v. Tors*, 266 Cal.2d 495, 502 [72 Cal.Rptr. 287].) . . .

We are of the opinion that appellant's idea of the filming of Shakespeare's play *The Taming of the Shrew* is one which may be protected by contract.

Express or implied contracts both are based upon the intention of the parties and are distinguishable only in the manifestation of assent. . . .

The making of an agreement may be inferred by proof of conduct as well as by proof of the use of words. . . . Whether or not the appellant and respondents here, by their oral declarations and conduct, as shown by the depositions and affidavits, entered into a contract whereby respondents agreed to compensate appellant in the event respondents used appellant's idea, is a question of fact which may not be properly resolved in a summary judgment proceeding, but must be resolved upon a trial of the issue. . . .

Statute of Frauds. Respondents urge that the agreement is barred by the statute of frauds, section 1624 subdivision 1 of the Civil Code.

The application of section 1624 subdivision 1 of the Civil Code to the trans-

action here under consideration rests upon a triable issue of fact. The trier of fact might conclude that from the negotiations and conduct of the parties and their agents there was an implied contract. That is, the respondents may be found to have made an implied promise of payment, conditioned upon subsequent use, in return for appellant's act of disclosing his idea—not in return for his promise to disclose such idea. This being a unilateral contract (a promise for an act—see Rest., Contracts, §§ 12 and 55), it does not fall within the section of the statute of frauds dealing with contracts not to be performed within one year. (Rest., Contracts, § 198, com. a.) If the trial court should find that appellant disclosed his idea to respondents on the condition that respondents would not use the idea unless they compensated appellant for such use, and respondents accepted the disclosure on that condition, then the compensation would, at respondents' option, take one of two forms: they would engage appellant as producer of the film or pay him the monetary equivalent. Since it appears from the record that appellant has made his disclosure and respondents have elected not to engage him as producer of the film, all that remains to be done is payment by respondents. Where a contract has been fully performed by one party and nothing remains to be done except the payment of money by the other party, the statute of frauds is inapplicable. . . . Furthermore, to fall under the bar of subdivision 1 of section 1624 of the Civil Code, the contract must, by its terms, be impossible of performance within a year. If it is unlikely that it will be so performed, or the period of performance is indefinite, the statute does not apply. . . .

The judgment is reversed.

NOTE

In the preceding case, it appears that the plaintiff's producer status and his pre-existing relationships in the industry were such that his very involvement in a proposed project was assumed to be with a view toward a joint venture or an equivalent relationship. In *Faris v. Enberg*, 97 Cal.3d 309, 158 Cal. Rptr. 704 (Cal. 1979), on the other hand, the developer of an idea for a television sports quiz show appears to have been a novice, without an established industry status. Faris called television station KTLA and left a message with a secretary that he had created a sports television show that would interest Dick Enberg (an up and coming sportscaster). He left his name and number. When Enberg called back, Faris told Enberg that he intended to produce the show and that he wanted to speak with Enberg "about participating in the show as the master of ceremonies." Enberg was interested, and the two met the next day at KTLA. Faris described the show and gave Enberg a copy of the format. Faris told Enberg that the show was his "creation" and "literary property." Faris discussed the possibility of Enberg's serving as master of ceremonies, "or, if he desired, actually participating with me in the production of the show . . . as a part owner thereof. . . . [I]f you will come with me and do the show, you can have a piece of the show. You can own it. You won't have to work for a salary for somebody else." Enberg told Faris he was going to talk the next week with some KTLA producers about a sports show. He asked Faris to leave a copy of the format for further review. Faris did not expressly authorize Enberg to discuss the format with anyone or to give it to anyone else. He stated that had Enberg told Faris that Enberg planned to disclose the format to, or discuss it with, anyone else, or that he had a commitment to another sports quiz show, Faris would not have disclosed his idea or left a copy of the format with Enberg. Thereafter, a quiz show called "Sports Challenge" appeared on television with Enberg as master of ceremonies. "There is absolutely no evidence," the court stated, "that plaintiff expected, or indicated his expectation of receiving compensation for the service of revealing the format to Enberg [and eventually selling it]. To the contrary,

the sole evidence is that plaintiff voluntarily submitted it to Enberg for the sole purpose of enabling Enberg to make a determination of his willingness to enter into a future business relationship with plaintiff. . . . [Faris] appears at all times to have intended to produce [the show] himself, and sought out Enberg, as a master of ceremonies. He obviously hoped to make his idea more marketable by hiring a gifted sports announcer as his master of ceremonies [and] more to entice [Enberg] by promises of a ‘piece’ of the enterprise for his involvement. . . . There is no reason to think that Enberg, or anyone else with whom Enberg spoke, would have believed that Faris’ submission was an offer to sell something, which if used would oblige the user to pay. . . . Based on the clear holding of *Desny* an obligation to pay could not be inferred from the mere fact of submission on a theory that everyone knows that the idea man expects to be paid. Nor could it be inferred from the comment by Faris that the format was his ‘creation’ and ‘literary property.’ In *Desny* the court held that the mere submission of an idea by a writer could not create the obligation. So, necessarily, the converse must also be the case: that knowledge on the part of the recipient that the submitter is a writer possessing his or her unprotected literary creation could not create an obligation to pay. Plaintiff’s statements that he would not have revealed the format or idea to Enberg had he known that Enberg was going to show it to anyone else were not germane since he never told this to Enberg. . . . Plaintiff attempted to impose a contract on the facts of this case by asserting that Enberg solicited the submission, returned plaintiff’s phone call and asked to keep a copy of the format. We do not agree. Faris solicited Enberg’s involvement. It would be entirely inconsistent with *Desny* to hold that an implied-in-fact contract could be created because a telephone call was returned or because a request was made for an opportunity to read the work that was unconditionally submitted. . . .” Nor was there a breach of fiduciary obligation. While “copyright protectability of a literary work is not a necessary element of proof in a cause of action for breach of confidence . . . [i]n order to prevent the unwarranted creation or extension of a monopoly and restraint on progress in art, a confidential relationship will not be created from the mere submission of an idea to another. There must exist evidence of the communication of the confidentiality of the submission or evidence from which a confidential relationship can be inferred. Among the factors from which such an inference can be drawn are: proof of the existence of an implied-in-fact contract (*Davies v. Krasna*, 245 Cal.2d 535 [54 Cal.Rptr. 37]); proof that the material submitted was protected by reason of sufficient novelty and elaboration (*Fink v. Goodson-Todman Enterprises, Ltd.*, 9 Cal.3d 996 [88 Cal.Rptr. 649]); or proof of a particular relationship such as partners, joint adventurers, principal and agent or buyer and seller under certain circumstances. (*Blau-stein v. Burton*, 9 Cal.3d 161, 187 [88 Cal.Rptr.319]; *Thompson v. California Brewing Co.*, 150 Cal.2d 469, 475 [310 P.2d 436].) . . . We do not believe that the unsolicited submission of an idea to a potential employee or potential business partner, even if that person then passes the disclosed information to a competitor, presents a triable issue of fact for confidentiality. Here, no rational receiver of the communications from Faris could be bound to an understanding that a secret was being imparted. One could not infer from anything Enberg did or said that he was given the chance to reject disclosure in advance or that he voluntarily received the disclosure with an understanding that it was not to be given to others. To allow the disclosure which took place in this case to result in a confidential relationship, without something more, would greatly expand the creation of monopolies and bear the concomitant danger to the free communication of ideas. Our conclusion that evidence of knowledge of confidence or from which a confidential relationship can be implied is a minimum prerequisite to the protection of freedom in the arts. In the instant case, there was no direct evidence that either party believed that the disclosure was being made in confidence. . . . [nor were there] other special facts [present] from which the relationship can be inferred: there was no implied-in-fact contract; the material was not protectable; and they were not yet partners or joint adventurers, and there was no buyer/seller or principal/agent relationship. Plaintiff might argue that he and Enberg were joint

adventurers, but such was only Faris' unfulfilled hope. There was no evidence of more than a conversation which might have developed into a relationship later on. . . ."

Murray v. National Broadcasting Company, Inc., 844 F.2d 988 (2d Cir.), cert. denied, 488 U.S. 955 (1988)

ALTIMARI, CIRCUIT JUDGE

It was almost a generation ago that a young comedian named Bill Cosby became the first black entertainer to star in a dramatic network television series. That program, *I Spy*, earned Cosby national recognition as an actor, including three Emmy Awards (1966, 1967 and 1968) for best performance in a dramatic series, and critical acclaim for the portrayal of a character without regard to the actor's race. Although keenly aware of the significance of his achievement in breaking the color line on network television, Cosby set his sights then on "accomplish[ing] something more significant for the Negro on TV." In an interview in 1965, he envisioned a different approach to the situation comedy genre made popular by *The Dick Van Dyke Show*. The *Daily News* described Cosby's "dream" series as not unlike other situation comedies. There'll be the usual humorous exchanges between husband and wife. . . . Warmth and domestic cheerfulness will pervade the entire program.

Everything on the screen will be familiar to TV viewers. But this series will be radically different. Everyone in it will be a Negro.

. . . "I'm interested in proving there's no difference between people," [explained Cosby]. "My series would take place in a middle-income Negro neighborhood. People who really don't know Negroes would find on this show that they're just like everyone else."

Nearly twenty years later, on September 20, 1984, Cosby's dream for a "color-blind" family series materialized with the premier of *The Cosby Show*—a situation comedy about a family known as the Huxtables. Bill Cosby stars in the leading role as Heathcliff ("Cliff") Huxtable together with his TV wife Clair and their five children.

Plaintiff-appellant Hwesu Murray, an employee of defendant-appellee ("NBC"), claims in the instant case that in 1980, four years prior to the premier of *The Cosby Show* on NBC's television network, he proposed to NBC a "new" idea for a half-hour situation comedy starring Bill Cosby. In a written proposal submitted to NBC, Murray described his series called *Father's Day* as "wholesome . . . entertainment" which will focus upon the family life of a Black American family. . . . The leading character will be the father, . . . a devoted family man and a compassionate, proud, authority figure. . . .

. . . The program may well resemble *Father Knows Best* and *The Dick Van Dyke Show*. It will be radically different from *The Jeffersons*, *Good Times*, *Different Strokes*, and *That's My Mama*. The father will not be a buffoon, a super-masculine menial, or a phantom. The program will show how a Black father can respond with love . . . , and will present . . . a closely-knit family. . . .

On this appeal from an order . . . granting defendants-appellees' motion for summary judgment, we are asked to determine whether, under New York law, plaintiff has a legally protectible interest in his idea which he maintains was used by NBC in developing *The Cosby Show*. Because we agree with the district court's conclusion that, under New York law, lack of novelty in an idea precludes plaintiff from maintaining a cause of action to prevent its unauthorized use, we

affirm the district court's order granting summary judgment and dismissing the complaint.

Background

Plaintiff Hwesu S. Murray has been employed in the television industry for the past ten years. Murray holds a Bachelor of Arts degree in English and graduate degrees in broadcast journalism and law. In 1979, defendant-appellee NBC hired Murray as a Unit Manager and financial analyst in its sports division. A year later, plaintiff contacted an NBC official outside of NBC Sports about some "extracurricular" ideas he had for future television programs, and the official apparently instructed him to submit his proposals in writing. Soon thereafter, in June 1980, plaintiff submitted five written proposals, one of which was entitled "Father's Day." Murray allegedly informed NBC that if it were interested in any of the proposals, he expected to be named executive producer and to receive appropriate credit and compensation as the creator of the eventual program. Plaintiff also allegedly told NBC that his ideas were being submitted in confidence.

Murray's proposal for "Father's Day" is the subject matter of this action. The NBC official who originally had requested it encouraged Murray to "flesh out" his proposal and submit it to Josh Kane, then an NBC vice-president and a top official with NBC Entertainment, the division of NBC responsible for network television programming. Plaintiff thereupon submitted to Kane an expanded proposal for Father's Day. In a two-page memorandum dated November 1, 1980, Murray first suggested that Bill Cosby play the part of the father. At that time, plaintiff also made several other casting suggestions, including roles for a working spouse and five children, and again indicated that the proposed series would "combine humor with serious situations in a manner similar to that of the old Dick Van Dyke Show" but "with a Black perspective." Murray's expanded proposal concluded with the observation that, "[l]ike Roots, the show will attempt to depict life in a [closely-knit] Black family, with the addition of a contemporary, urban setting."

NBC apparently decided not to pursue Murray's proposal. On November 21, 1980, Kane returned the Father's Day submission to plaintiff and informed him that "we are not interested in pursuing [its] development at this time."

Four years later, in the fall of 1984, *The Cosby Show* premiered on NBC. *The Cosby Show* is a half-hour weekly situation comedy series about everyday life in an upper middle-class black family in New York City. The father, played by Bill Cosby, is a physician, and the mother is a lawyer. In its first season, *The Cosby Show* soared to the top of the Nielsen ratings and has become one of the most popular programs in television history. The show is highly regarded by critics and is also a huge commercial success.

Less than a month after viewing the premiere, plaintiff wrote to NBC to advise it that *The Cosby Show* had been derived from his idea for Father's Day. In January 1985, NBC responded through its Law Department, stating its position that "'Father's Day' played absolutely no role in the development of 'The Cosby Show' . . . [since] much of the substance and style of 'The Cosby Show' is an outgrowth of the humor and style developed by Bill Cosby throughout his career." NBC further maintained that *The Cosby Show* was developed and produced by The Carsey-Werner Company ("Carsey-Werner"), an independent production company and the executive producers of the series.

In his complaint, plaintiff claimed that *The Cosby Show's* portrayal of a strong

black family in a nonstereotypical manner is the essence of Father's Day, and "[i]t is that portrayal of Black middle-class life that originated with plaintiff." Murray also alleged that Josh Kane showed plaintiff's Father's Day proposal to his superiors at NBC, including defendant-appellee Brandon Tartikoff, President of NBC Entertainment. Tartikoff, together with Cosby and Carsey-Werner, have been credited with the creation and development of *The Cosby Show*. Plaintiff maintains that NBC and Tartikoff deliberately deceived plaintiff into believing that NBC had no interest in "Father's Day" and then proceeded to develop and eventually produce plaintiff's idea as *The Cosby Show*.

Plaintiff's complaint stated a number of causes of action arising out of defendants' alleged appropriation of his idea. Among those relevant to this appeal are . . . various state law claims, including . . . breach of implied contract. . . . Plaintiff sought, inter alia, damages and declaratory and injunctive relief as the "sole owner of all rights in and to the idea, proposal and property [known as] 'Father's Day.'"

In a decision dated July 15, 1987, 671 F.Supp. 236 (S.D.N.Y.), the district court considered whether plaintiff's idea was "property" that could be subject to legal protection. Since the parties agreed that New York law applied to plaintiff's claims, the district court proceeded to analyze defendants' motion for summary judgment in light of the New York Court of Appeals decision in *Downey v. General Foods Corp.*, 31 N.Y.2d 56, 334 N.Y.S.2d 874, 286 N.E.2d 257 (1972). In *Downey*, the New York court established the general proposition that "[l]ack of novelty in an idea is fatal to any cause of action for its unlawful use." The district court, therefore, determined that the "sole issue" before it was the novelty of plaintiff's Father's Day proposal, and accordingly assumed, for purposes of defendants' motion, that defendants in fact used plaintiff's idea in the development of *The Cosby Show*.

In focusing on the novelty of plaintiff's proposal, the district court determined that Murray's idea was not subject to legal protection from unauthorized use because Father's Day merely combined two ideas which had been circulating in the industry for a number of years—namely, the family situation comedy, which was a standard formula, and the casting of black actors in nonstereotypical roles. The district court found that, to the extent Father's Day, in Murray's words, "may well resemble 'Father Knows Best' and 'The Dick Van Dyke Show,'" it could not be considered novel. In addition, the portrayal of a black family in nonstereotypical roles, according to the court, precluded a finding of novelty because 1) the television networks already had cast some black actors, including Bill Cosby himself, e.g., *I Spy* (1965–68), *The Bill Cosby Show* (1969–71), and *Fat Albert and the Cosby Kids* (1972–79), in such roles, and 2) the idea of combining the family situation comedy theme with an all-black cast already had been suggested publicly by Bill Cosby some twenty years before the creation of *The Cosby Show*. The district court also determined that Murray's casting of Bill Cosby in the lead role in Father's Day was no mere coincidence. Rather, it was "further evidence that Cosby is connected—even in plaintiff's mind—with the concept that plaintiff seeks to monopolize."

In view of the foregoing, the district court granted defendants' motion for summary judgment and dismissed the various claims presented in the complaint, concluding that the lack of novelty in plaintiff's proposal was fatal to any cause of action for unauthorized use of that idea.

Discussion

... As the district court recognized, the dispositive issue in this case is whether plaintiff's idea is entitled to legal protection. Plaintiff points to "unique"—"even revolutionary"—aspects of his Father's Day proposal that he claims demonstrate "genuine novelty and invention," which preclude the entry of summary judgment against him. Specifically, plaintiff contends that his idea suggesting the nonstereotypical portrayal of black Americans on television is legally protectible because it represents a real breakthrough. As he stated in his affidavit in opposition to defendants' motion,

[w]hen I created "Father's Day," I had in mind . . . a show that . . . would portray a Black family as it had never been shown before on television. . . . I also . . . desire[d] to produce a show with strong and positive role models for the Black community, and to make a statement regarding the love and integrity of the Black family to the world. I think every Black person in this country knows there has been a need for this, and that never before on television had there been a portrayal of a Black family as I created it for "Father's Day."

Murray claims that the novelty of his idea subsequently was confirmed by the media and the viewing public which instantly recognized the "unique" and "revolutionary" portrayal of a black family on *The Cosby Show*.

We certainly do not dispute the fact that the portrayal of a nonstereotypical black family on television was indeed a breakthrough. Nevertheless, that breakthrough represents the achievement of what many black Americans, including Bill Cosby and plaintiff himself, have recognized for many years—namely, the need for a more positive, fair and realistic portrayal of blacks on television. While NBC's decision to broadcast *The Cosby Show* unquestionably was innovative in the sense that an intact, nonstereotypical black family had never been portrayed on television before, the mere fact that such a decision had not been made before does not necessarily mean that the idea for the program is itself novel.

Consequently, we do not agree with appellant's contention that the nonstereotypical portrayal of a black middle-class family in a situation comedy is novel because

[t]o argue otherwise would be the equivalent of arguing that since there had always been baseball, and blacks in baseball, there was nothing new about Jackie Robinson playing in the major leagues—or that since there had always been schools in Little Rock, Arkansas, and blacks in schools, there was nothing new about integrating schools in Little Rock.

As appellees persuasively point out in response to this analogy, Murray has "confuse[d] the 'idea' with its execution. . . . Indeed, the idea of integration . . . had been discussed for decades prior to the actual events taking place." Similarly, we believe, as a matter of law, that plaintiff's idea embodied in his Father's Day proposal was not novel because it merely represented an "adaptation of existing knowledge" and of "known ingredients" and therefore lacked "genuine novelty and invention."

We recognize of course that even novel and original ideas to a greater or lesser extent combine elements that are themselves not novel. Originality does not exist in a vacuum. Nevertheless, where, as here, an idea consists in essence of nothing

more than a variation on a basic theme—in this case, the family situation comedy—novelty cannot be found to exist. The addition to this basic theme of the portrayal of blacks in nonstereotypical roles does not alter our conclusion, especially in view of the fact that Bill Cosby previously had expressed a desire to do a situation comedy about a black family and that, as the district court found, Cosby’s entire career has been a reflection of the positive portrayal of blacks and the black family on television.

Appellant would have us believe that by interpreting New York law as we do, we are in effect condoning the theft of ideas. On the contrary, ideas that reflect “genuine novelty and invention” are fully protected against unauthorized use. But those ideas that are not novel “are in the public domain and may freely be used by anyone with impunity.” Since such non-novel ideas are not protectible as property, they cannot be stolen.

In assessing whether an idea is in the public domain, the central issue is the uniqueness of the creation. Murray insists that there is at least a question of fact as to the novelty of Father’s Day because The Cosby Show is indisputably unique. In support of this contention, plaintiff points to the fact that NBC contracted with Carsey-Werner for the right of NBC to broadcast The Cosby Show. The contract apparently was executed by the parties before there had been any written development of the proposed series. The “program idea” for The Cosby Show, however, was described in the contract as “unique, intellectual property.” According to plaintiff, the inescapable conclusion is that the idea—whether it be Father’s Day or The Cosby Show—could not possibly have been in the public domain if NBC expressly contracted to purchase it from Carsey-Werner.

We disagree. The Carsey-Werner contract contemplates a fully-produced television series. The contract refers to, inter alia, the program format, titles, set designs, theme music, stories, scripts, and art work as well as to the “program idea.” Taken together, these elements no doubt would be considered original and therefore protectible as property. On the other hand, we think it equally apparent that the mere idea for a situation comedy about a nonstereotypical black family—whether that idea is in the hands of Murray, Carsey-Werner, NBC, or anyone else—is not novel and thus may be used with impunity.

Finally, as an alternative attack on the propriety of the district court’s order granting summary judgment, plaintiff posits that even if his idea was not novel as a matter of law, summary judgment still was inappropriate because his proposal was solicited by defendants and submitted to them in confidence. In this regard, Murray relies on *Cole v. Phillips H. Lord, Inc.*, 262 A.D. 116, 28 N.Y.S.2d 404 (1st Dep’t 1941). Murray contends that *Cole* stands for the proposition that when an idea is protected by an agreement or a confidential relationship, a cause of action arises for unauthorized use of that idea irrespective of the novelty of the subject matter of the contract. Plaintiff’s reliance on *Cole* is misplaced in light of subsequent cases, particularly the New York Court of Appeals decision in *Downey v. General Foods Corp.*, 31 N.Y.2d 56, 334 N.Y.S.2d 874, 286 N.E.2d 257 (1972). See also *Ferber v. Sterndent Corp.*, 51 N.Y.2d 782, 433 N.Y.S.2d 85, 86, 412 N.E.2d 1311 (1980) (“[a]bsent a showing of novelty, plaintiff’s action to recover damages for illegal use of ‘confidentially disclosed ideas’ must fail as a matter of law”); *Educational Sales Programs*, 317 N.Y.S.2d at 844 (“[o]ne cannot be forever barred from using a worthwhile but unoriginal idea merely because it was once asked to be treated in confidence”).

Consequently, we find that New York law requires that an idea be original or

novel in order for it to be protected as property. Since, as has already been shown, plaintiff's proposal for Father's Day was lacking in novelty and originality, we conclude that the district court correctly granted defendants' motion for summary judgment. . . .

Conclusion

Our review of New York intellectual property law leads us to the inescapable conclusion that the district court did not err in deciding that there was no material issue of fact as to the novelty of plaintiff's proposal. In our judgment, the basic premise underlying the concept of novelty under New York law is that special protection is afforded only to truly innovative ideas while allowing the free use of ideas that are "merely clever or useful adaptation[s] of existing knowledge." In this case, the record indicates that plaintiff's idea for a situation comedy featuring the nonstereotypical portrayal of a black family simply was not uniquely plaintiff's creation. Accordingly, we affirm the district court's order granting summary judgment and dismissing the complaint.

Affirmed.

PRATT, CIRCUIT JUDGE (dissenting)

Today this court holds that the idea underlying what may well be the most successful situation comedy in television history was, in 1980, so unoriginal and so entrenched in the public domain that, as a matter of law, it did not constitute intellectual property protected under New York law. Because I am convinced that the novelty issue in this case presents a factual question subject to further discovery and ultimate scrutiny by a trier of fact, I respectfully dissent.

At least for purposes of this appeal, it is given that Murray presented NBC with an idea for a television series; that, after showing interest in Murray's initial idea, NBC then asked him to submit a more detailed proposal; and that NBC then actually used his proposal in developing *The Cosby Show*, but at the same time refused to provide any compensation to Murray. The only question on appeal is whether there is evidence to indicate that Murray's idea possessed the novelty and originality required under New York law. . . .

I agree with the majority that there is some evidence that Murray's idea was not novel. But clearly, there is also evidence indicating novelty. Initially, there is the admission by NBC, in its agreement with Carsey-Werner, that the television series is "unique, intellectual property." Although NBC argues, and the majority agrees, that this clause refers to a "fully-produced television series," and not Murray's program idea, such analysis ignored two important facts.

First, the "unique, intellectual property" language is found in the remedies section of the development agreement. This section gives NBC the right to prevent the loss of its "unique, intellectual property" should Carsey-Werner fail to perform. However, if Carsey-Werner does not perform—that is, if it subsequently refuses to develop the television series—the only "unique, intellectual property" to be protected is the program's underlying idea. In other words, from the outset NBC wanted to make certain that if its relationship with Carsey-Werner faltered, the novel idea it had given Carsey-Werner would be protected from disclosure. And because, for purposes of this appeal, we must assume that NBC got its idea from Murray, the Carsey-Werner development agreement, at

a minimum, constitutes admissible evidence that Murray's idea was unique, thus making the novelty determination a question of fact.

That the "unique, intellectual property" mentioned in the agreement refers to Murray's basic idea underlying the series rather than a fully-produced series, also finds support in the second fact the majority ignores. The definition section of the development agreement specifically defines this "property," not, as the majority contends, as "titles, set designs, theme music, stories, scripts, and art work"—indeed, these are separately defined in the agreement as the "elements" to be developed by Carsey-Werner—but rather, the development agreement defines the actual "property" exclusively to be the "story, literary property, program idea, and/or program format which form(s) the basis" for the television series. This provision provides additional evidence that it was Murray's underlying idea, not the developed elements of the series as a whole, which NBC desired to protect as unique and novel property.

Nor is the agreement the only piece of evidence indicating an issue of fact as to novelty. In 1985, NBC admitted that Murray had "rights" in his idea, but determined it had no interest in acquiring those rights. At trial, both Cosby and Tartikoff stated that they believed *The Cosby Show* to be novel and unique. NBC admitted that the reason it formally returned rejected submissions, as it did in Murray's case, was that the "material belong[ed] to the submitter." In short, there is substantial evidence, both within and independent of the Carsey-Werner development agreement, which directly conflicts with the majority's holding that, as a matter of law, Murray's idea was not novel.

The fact that the basic idea had been expressed by Cosby some fifteen years before Murray submitted his proposal to NBC does not erase these factual issues. To say, as a matter of law, that an idea is not novel because it already exists in general form, would be to deny governmental protection to any idea previously mentioned anywhere, at anytime, by anyone. I do not believe New York law defines "novelty" so strictly, especially in the area of mass communications, an area long recognized by state courts as "a specialized field having customs and usages of its own" where "a property right exists" in "a combination of ideas evolved into a programs." Indeed, in a market the very existence of which depends on the generation and development of ideas, it may be impossible to formulate a concept that has not previously been expressed by someone, somewhere.

Novelty, by its very definition, is highly subjective. As fashion, advertising, and television and radio production can attest, what is novel today may not have been novel 15 years ago, and what is commonplace today may well be novel 15 years hence. In this instance, where Cosby expressed the concept almost a decade and a half before Murray submitted his proposal, where it was Murray's idea that NBC actually used, where there is no evidence indicating NBC knew anything of the program idea until Murray submitted it, and where substantial conflicting evidence exists as to the "novelty" of the idea under New York law, there seems to be at least a triable issue.

The majority's decision prematurely denies Murray a fair opportunity to establish his right to participate in the enormous wealth generated by *The Cosby Show*. Accordingly, I would reverse the district court judgment and remand the case for further consideration.

NOTE

As we have seen in the *Nadel* decision (see 4.1.2.1, note 3, above), novelty to the defendant can be the basis for a claim in this area. However, as underscored by the

unreported decision of the Second Circuit in *Khreativity Inc. v. Mattel, Inc.*, 2000 WL 1843223 (2d Cir. 2000), liability will not lie where “the idea was simply an insignificant variation on ideas already known to” the defendant.

4.2 NEGOTIATED ACQUISITIONS

The preceding sections of this chapter have covered the many legal principles that must be considered in deciding *whether* certain rights must be acquired, or instead may be used without permission. While this is a very important part of the lawyer’s job—and is the part that requires lawyers to make greatest use of “the law”—it is not the only thing that lawyers do. When legal analysis leads to the conclusion that rights should be acquired, the “transactional” phase of entertainment law begins. In this phase, the terms of the acquisition are negotiated, and if agreement is reached, the agreement is reduced to writing (or should be).

Most of the time, the parties to entertainment industry agreements have a common understanding of what their agreements permit and require; and most of the time, they govern themselves accordingly. Voluntary compliance with agreements is never newsworthy, and by definition does not result in litigation.

On occasion, however, disagreements do arise. Sometimes, the parties disagree about the meaning of certain provisions of their contract. Other times, one party argues that it agreed to convey more than may be conveyed as a matter of law, and therefore the other party did not actually acquire it. Examples of both types of cases follow.

4.2.1 The Scope of Acquired Rights: By Contract

When, as is often the case, rights are acquired by written agreement, the scope of the rights acquired is fixed by the language of that agreement. Should disputes arise, they are simply disputes concerning the meaning of that agreement; and such disputes are resolved in entertainment industry cases using the same techniques of contract interpretation that are used in cases arising in all other industries.

The cases in this subsection of the book are a representative sampling (chosen from among dozens that are available) of decisions that interpret rights acquisition agreements. Certain general principles are applied by judges in interpreting agreements (e.g., give effect to the plain meaning of the agreement’s words, and give effect to the parties’ intentions). Nonetheless, contract interpretation cases are fact-specific; they turn, in other words, on the specific language of the agreements at issue and on the circumstances that existed when they were negotiated. Therefore, the following cases are not included because they contain a “rule of law.” Instead, they are included because they illustrate why, as a factual matter, disputes arose.

Such disputes typically arise with the advent of new technologies. When the home video industry was born, the question that arose was whether grants of “television rights” included the right to release videocassettes. *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988), caused major shock waves to rumble through Hollywood when the court determined that a grant of rights “to record [a song] in any manner, medium, form or language” and to exhibit the film in which the song had been recorded “by means of television” was not broad enough to permit the studio to manufacture and distribute videocassettes. Sub-

sequently, two other circuit court decisions addressed the same issue. In *Rey v. Lafferty* (reproduced below) the First Circuit reached the same conclusion as had the Ninth Circuit in *Cohen*; but in *Bloom v. Hearst Entertainment, Inc.* (noted below) the Fifth Circuit reached the opposite conclusion, based on similar contract language.

While reading all of these cases, think about whether other language could have been used in drafting the agreements to make the intentions of the parties clearer than these agreements did.

In addition, see *Gilliam v. American Broadcasting Companies*, in Section 5.3.2. Although this case is cited most often for the proposition that a creative artist has the right to prevent “mutilation” of his/her work, it also contains an interesting example of the way in which successive sublicensees sought to expand upon the scope of the rights granted to the original licensee.

**Landon v. Twentieth Century-Fox Film Corp., 384 F. Supp. 450
(S.D.N.Y. 1974)**

LASKER, J.

In 1944 Margaret Landon entered into an agreement with Twentieth Century-Fox Film Corporation (Fox) to sell, among other things, “motion picture rights” to her book entitled *Anna and the King of Siam*. In 1972 Fox produced 13 films which were broadcast on the CBS Television network as a weekly serial entitled “Anna and the King.”

This suit presents the question whether the 1944 agreement between Landon and Fox authorized Fox to produce and exhibit the 1972 series through defendant CBS. In addition to her assertion that the series infringed her copyright in the literary property *Anna and the King of Siam*, Landon raises the novel claim that the 1944 agreement constituted a tying arrangement in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1, on the grounds that Fox allegedly acquired the original copyright “on condition that” it also acquire the copyright renewal rights. She also argues that the assignment of the renewal copyright is unenforceable for lack of consideration. Landon’s final claim is that production and exhibition of the television series constituted tortious misconduct on the part of defendants, that is, defamation, invasion of her right of privacy, misappropriation of literary property and wrongful attribution to Landon of credit for the series, which she claims to have “mutilated” her literary property. . . .

The heart of Landon’s contention that the series infringed her copyright is that the granting language of the 1944 agreement gave Fox the right to produce only motion pictures of feature length intended for first exhibition in movie theaters, and not those intended for first exhibition on television. The grant clauses of the agreement provide, in relevant part:

FIRST: The Owner does hereby grant, convey and assign unto the Purchaser, its successors and assigns forever:

(a) The sole and exclusive motion picture rights and motion picture copyright throughout the world in and to said literary property. . . .

(c) The sole and exclusive right to make, produce, adapt, sell, lease, rent, exhibit, perform and generally deal in and with the copyright motion picture versions of said literary property, with or without sound accompaniment and with or without the interpolation of musical numbers therein, and for such purposes to adapt one or more versions of said literary property, to add to and subtract from the literary

property, change the sequence thereof, change the title of said literary property, use said title, or any of its components, in connection with works or motion pictures wholly or partially independent of said literary property, change the characters in said literary property, change the descriptions of the said characters, and use all thereof in new versions, adaptations and sequels in any and all languages, and to register and obtain copyright therein, throughout the world. . . .

(f) The sole and exclusive right to broadcast by means of the method generally known and described as television, or any process analogous thereto, any of the motion picture versions of said literary property produced pursuant hereto. The Owner specifically reserves to herself the right to broadcast the literary property by television direct from living actors; provided, however, that the Owner agrees that, for a period from the date hereof until eight (8) years after the date of general release of the first motion picture produced by the Purchaser based upon the literary property, or until ten (10) years after the date hereof, whichever period first expires, she will not exercise or grant the right to broadcast the literary property, or any part thereof, by television, or by any other device now known or hereafter to be devised by which the literary property may be reproduced visually and audibly for an audience not present at a performance thereof and with living actors speaking the roles thereof. The Owner grants to the Purchaser the exclusive option to license, lease and/or purchase said reserve rights to broadcast the literary property by television from living actors, or otherwise, at the same price and upon such bona fide terms as may be offered to the Owner by any responsible prospective buyer and which shall be acceptable to the Owner.

(g) The right to broadcast by means of radio processes, portions of said literary property, or the motion picture version or versions thereof, in conjunction with or exploitation of or as an advertising medium or tie-up with the production, exhibition and/or distribution of any motion picture based on said literary property, provided that, in exercising said radio broadcasting rights, Purchaser shall not broadcast serially an entire photoplay produced hereunder. Except as herein stated, the Owner agrees that she will not permit the said literary property or any part thereof to be broadcast by any method or means until two years after the general distribution date of the first motion picture made by the Purchaser based upon the said literary property, or four years after the date hereof, whichever period first expires. This restriction on broadcasting, however, shall not in any way affect or restrict the rights on television herein granted.

(h) The right to publish, copyright or cause to be published and copyrighted in any and all languages, in any and all countries of the world, in any form or media (including, but not limited to, press books, press notices, trade journals, periodicals, newspapers, heralds, fan magazines and/or small separate booklets) synopses revised and/or abridged versions of said literary property, not exceeding 7,500 words each, adapted from the said literary property or from any motion picture and/or television version thereof, with or without sound accompaniment, produced, performed, released or exhibited pursuant hereto.

It is evident that the grant clauses are broadly drafted and do not contain or suggest the purported distinction between motion pictures made for first exhibition on television and those made for theater presentation. Clause (c) expressly grants to Fox the sole right to “make” and “generally deal in” an apparently unlimited number of “motion picture versions” of the property. It confers the right to use and modify the plot, characters and title in “new versions, adaptations, and sequels,” again without apparent limit on the number of such versions. Clause (f) cedes the “exclusive” right to broadcast on television “any of the motion picture versions” of the property produced pursuant to the agreement.

The broad construction of the phrase “motion picture versions” to include the 1972 series is confirmed by related provisions of the agreement. These indicate that when the parties sought to reserve to Landon certain rights, they did so carefully and specifically. Such reservations are themselves strong evidence that if Landon had intended to reserve the right to make and exhibit filmed television versions of the property, she and her noted and experienced literary agents, the William Morris Agency, knew how to do so. For example, Clause (g) gives Fox the right to broadcast by radio portions of the property for advertising or promotional purposes, but by express language states that Fox “shall not broadcast serially an entire photoplay. . . .” Significantly the provision states that “[t]his restriction on broadcasting. . . shall not in any way affect or restrict the rights on television herein granted.” Clause (f), the television clause, specifically reserves to Landon the right to “broadcast the literary property by television direct from living actors,” but contains a covenant providing that she shall not exercise even that limited right for a period of years. In view of this covenant obviously drafted to protect Fox from Landon’s competition with Fox’s own films, it is far-fetched to believe that the parties so carefully restricted Landon’s right to exhibit live television performances only to leave her completely free to show an unlimited number of filmed television versions of the property. . . .

We conclude that the only reasonable construction of the 1944 agreement is that Fox was granted the right to make an unlimited number of motion picture versions of the property, without limitation as to length, or place of first exhibition. This conclusion is consistent with the law in this Circuit as to the interpretation of copyright grants. *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir.), *cert. denied*, 393 U.S. 826, 89 S.Ct. 86, 21 L.Ed.2d 96 (1968) is precisely in point. There the copyright owners of a musical play assigned to Bartsch in 1930 the “motion picture rights” in the play together with the right to “copyright, vend, license and exhibit” motion picture photoplays throughout the world. There was no television clause in the assignment. Later in 1930, Bartsch assigned his rights to Warner Brothers, which in turn transferred its rights to MGM. MGM produced and distributed a feature-length motion picture based on the musical play in 1935. In 1958 MGM licensed the picture for exhibition on television and Bartsch’s widow, to whom his copyright interest had devolved, sued to enjoin the broadcast. The issue was comparable to ours: whether, under the terms of original grant by the copyright authors to Bartsch in 1930 (and then from Bartsch to Warner), the right to “copyright, vend, license and exhibit . . . motion picture photoplays” included the right to license a broadcaster to exhibit the picture on television without a further express grant by the copyright owner (Bartsch). In deciding that the grant did include such a right, Judge Friendly emphasized that Bartsch’s assignment to Warner was “well designed to give [Warner] the broadest rights” with respect to the right to produce motion pictures, and noted that “[e]xhibit” means to ‘display’ or to ‘show’ *by any method*, and nothing in the rest of the grant sufficiently reveals a contrary intention.” 391 F.2d at 154 (emphasis added). The court stated the rule which controls the present case:

As between an approach that “a license of rights in a given medium (e.g., ‘motion picture rights’) includes only such uses as fall within the unambiguous core meaning of the term (e.g., exhibition of motion picture film in motion picture theaters) and exclude any uses which lie within the ambiguous penumbra (e.g., exhibition of motion picture film on television)” and another whereby “the licensee may properly

pursue any uses which may reasonably be said to fall within the medium as described in the license,” [Professor Nimmer] prefers the latter. So do we. . . . If the words are broad enough to cover the new use, it seems fair that the burden of framing and negotiating an exception should fall on the grantor; if Bartsch or his assignors had desired to limit “exhibition” of the motion picture to the conventional method where light is carried from a projector to a screen directly beheld by the viewer they could have said so. 391 F.2d at 155.

There was no question in *Bartsch* that the parties were aware of the possibilities of television even in 1930. In the present case, involving a 1944 agreement, there is, of course, no question on that score either: the Landon contract is sprinkled with references to television and one does not have to roam far into the penumbral meanings of “motion picture versions” to conclude that the term was intended by the parties to embrace rather than exclude the right to produce a television series. Indeed, Clause (h) of the agreement, (to which, curiously, the parties pay only passing attention) expressly refers to “any motion picture and/or television version . . . produced, performed, released or *exhibited pursuant hereto*.” (emphasis supplied)

Goodis v. United Artists Television, Inc., 425 F.2d 397 (2d Cir. 1970) also supports our conclusion that the 1944 agreement authorized the 1972 television series. . . .

Significantly, the right to make “sequels,” critically absent in *Goodis*, is explicitly expressed in the language before us. Clause (c) of the agreement recites the usual “additions” and “alterations” provisions in regard to adapting the property to the film medium and then grants the “sole and exclusive right” to use the property in “new versions, adaptations and sequels . . . and to register and obtain copyright therein, throughout the world.” Such broad language, particularly when read in combination with the grant in Clause (f) of the “sole and exclusive right” to broadcast on television “any of the motion picture versions” which the contract gives Fox the “sole and exclusive” right to make (Clause (c)), leads inescapably to the conclusion that Fox is entitled to summary judgment on the infringement claim.

We have carefully considered Landon’s argument that, at the least, the presence of genuine issues as to material facts precludes the grant of summary judgment to Fox. Apart from the fact that such an assertion is undercut by her own motion for similar relief, the argument is without merit. Landon contends first that Fox’s contracting practices as reflected in a number of other agreements drafted during the 1940’s demonstrate that Fox often and explicitly contracted for the right to produce “television versions,” and that its failure to do so here is probative of its intent as to the 1944 agreement. The contention is effectively rebutted by the undisputed facts that (1) Fox maintained both East coast and West coast legal departments, each with its own drafting style, and (2) Landon’s contract was drafted in the office which, as a matter of consistent practice, did not use the magic words “television versions” to acquire the rights in issue here, relying instead on general language to achieve the same result. In any event, contracts made between Fox and other copyright owners have little probative value as to what Fox and Landon intended in their particular agreement. . . .

Landon also contends that “motion picture versions” is a term of art whose meaning can be established only by extrinsic “technical evidence.” It is, of course, a familiar principle that where the terms of a contract are ambiguous, such evi-

dence may be introduced, not to vary the meaning of a contract but to establish the intent of the parties. But in the context here, the terms of the contract are not ambiguous and do not raise a triable issue of fact. . . .

Plaintiff also argues that it was not her intention to grant to Fox the right to make television versions of the property. She takes the position that her intentions in 1944 present an issue of disputed fact requiring a trial on the merits. The argument is wide of the mark for two reasons. First, it is axiomatic that evidence of plaintiff's intent is admissible only insofar as it was expressed to Fox. Her affidavit is silent on the question whether she ever expressed to Fox in 1944 the construction of the agreement she presses on the present motions, and it is undisputed that she had very little, if any direct contact with Fox at all. Albert B. Taylor, an executive with William Morris Agency (plaintiff's literary agents) with some familiarity with the negotiation of the 1944 agreement, does not state that he, or any other employee of the Agency communicated Landon's understanding of the agreement to Fox. More to the point, the opposing affidavit of Helen Strauss, who was personally responsible for plaintiff's account and for negotiation on Landon's behalf of the Fox agreement, states that in 1944 Strauss understood the agreement to convey to Fox all film rights, including television rights, while reserving to Landon "dramatic rights," including the right to televise a "live" dramatic rendition of the property.

In sum, there is no genuine issue as to any material fact and defendants are entitled to summary judgment as to the infringement claim. . . .

The second count of the complaint alleges as an unlawful tying arrangement Fox's requirement that it acquire the renewal copyright as a condition to its purchase of the original copyright. As plaintiff concedes, there is no reported case recognizing such a cause of action. Assuming, without deciding, that such an arrangement may violate the anti-trust laws, the particular claim asserted here is fatally deficient. As the Second Circuit has recently stated, the exercise of actual coercion by the defendant (as distinguished from the mere presence of market power) is a necessary element of an unlawful tying arrangement. See *Capital Temporaries, Inc. of Hartford v. The Olsten Corporation*, 506 F.2d 658 (2d Cir. 1974). . . . As we read *Capital Temporaries*, to state a valid claim plaintiff would have to allege that (1) she wished to sell only the original copyright at the time she signed the 1944 agreement, (2) expressed that fact to Fox, and (3) that sale of the renewal copyrights was forced upon her by virtue of the superior economic strength or market dominance of Fox. However, neither the complaint nor any supporting affidavit suggest the presence of these elements. Indeed, the contrary appears: Landon testified at her deposition (at p. 266) in connection with the question of copyright renewals that she did not have any discussion "at all" on that subject at the time the agreement was negotiated. Neither her own affidavit on the present motion nor those of her literary agents refer to any such discussions or any proposed modification of the draft agreement in connection with renewals.

As to Fox's market dominance, the record indicates that Landon's agents offered the literary property to various theater companies and film companies but that Fox was the "only film company to make an offer, despite efforts on my part to secure offers from other film companies." (Opposing Affidavit of Helen Strauss, at Paragraph 5.) Although Fox, as the only interested buyer may have been in a position to drive a hard bargain with Landon, the exercise of such power is not the kind of conduct proscribed by the antitrust laws, and indeed there is no

evidence that Fox exercised it all. Indeed the Strauss affidavit (Paragraph 5) states that *Anna and the King of Siam* was, as a factual work rather than a novel, not an easily saleable property but that Fox paid “a good purchase price” for it.

Moreover, even if plaintiff’s claim of an unlawful tying arrangement were otherwise sufficient, it would be barred by the four-year Statute of Limitations in 15 U.S.C. § 16(b). . . .

In the present case, however, the alleged violation arises from a single act—the 1944 agreement—by a single defendant. As a general rule, claims based on anti-competitive agreements to which the plaintiff is a party accrue at the time of their execution. . . .

Landon’s final claim charges that certain episodes in the 1972 television series “fail to retain and give appropriate expression to the theme, thought and main action of plaintiff’s work,” resulting in damage to her privacy and reputation and the literary property itself. (Complaint, Paragraph 24) As fleshed out by the material in support of her motion, the basis of this allegation is that her book was a serious literary work concerned with the struggle for human rights, whereas the television series was light in tone, and punctuated with bursts of dubbed laughter from the audience.

It is undisputed that the television credits stated that the scripts were “based on” plaintiff’s literary property, with screenwriting credit given to the actual authors of the series in the same titles as Landon’s name appears.

For several reasons, the claim is insufficient as a matter of law. Even without permission from an author or the existence of a written agreement with him, any person may truthfully state that a work is “based on” or “suggested by” the work of that author. I Nimmer, Copyright, § 110.41 at p. 447; *Geisel v. Poynter Products, Inc.*, 295 F. Supp. 331, 353 (S.D.N.Y. 1968). Although plaintiff would have a valid claim against defendants if they had falsely attributed the authorship of the series to her, see *Granz v. Harris*, 198 F.2d 585, 589 (2d Cir. 1952), her claim must fail where, as here, she contracted to (1) *require* Fox to give her appropriate credit “for her contribution to the literary material upon which such motion pictures shall have been based” (1944 Agreement, Article X); and (2) grant Fox the right to:

reproduce . . . spoken words taken from and/or *based on* the text or theme, of said literary property . . . in . . . motion pictures, using for that purpose all or a *part of the theme*, text and/or dialogue contained in said literary property. . . . [and] adapt one or more versions of said literary property, to add to and subtract from the literary property, change the sequence thereof, change the title . . . in connection with works or motion pictures *wholly or partially independent of said literary property* . . . *change the characters* . . . change the *descriptions of the said characters*, and use all thereof in new versions, adaptations and sequels. . . . (Agreement, Article I, paragraphs (b), (c)). (emphasis added)

These provisions clearly grant Fox the right to alter the literary property substantially and to attribute to plaintiff credit appropriate to her contribution. Accordingly, we find that Fox did not violate the agreement or engage in tortious conduct when it truthfully stated that the series was “based on” the property. . . .

NOTE

In *Goodis v. United Artists Television, Inc.*, 425 F.2d 397 (2d Cir. 1970), Warner Bros acquired exclusive motion picture rights to the novel *Dark Passage*, under a contract on Warners' standard form which contained additional specially negotiated clauses to cover radio and television broadcast rights. After producing a film of the book, which was shown in theatres and on television, Warner Brothers assigned its contract rights to UA, which produced a television film series based on the book, entitled "The Fugitive." The issue was whether an episodic series designed solely for television was included under the grant of rights to "broadcast and transmit *any photoplay produced hereunder* by the process of television . . ."

The contract permitted "such changes, *variations, modifications, alterations, adaptations, arrangements, additions in and/or eliminations and omissions from said Writings and/or the characters, plot, dialogue, scenes, incidents, situations, action, language and theme thereof*" as the producer might elect. (This language was very similar to that in the *Landon* case.) Goodis specifically retained only "[t]he right to broadcast said Writings by television from the performances given by living actors." Judge Waterman (with whom Judge Kaufman agreed) overturned the summary judgment which the district judge had granted to UA, and remanded the case for trial, stating that "the right to make 'additions in . . . said writings' and in the characters and plot of *Dark Passage* does not necessarily go so far as to show that there is no genuine issue as to whether the characters of *Dark Passage* may be depicted in photoplay adventures which bear little relationship to the 'said writings' of *Dark Passage*."

Viewed in the context of the entire contract, the 'additions' and 'alterations' clauses . . . could be read in a more restrictive manner to permit only those alterations necessary to adapt a written story to the medium of film. Similarly, use of the word 'unlimited' with respect to the rights to alter and supplement could have been intended only to prevent Goodis from protesting that his story had been distorted or mutilated." In addition, Judge Waterman wanted a full trial because "our disposition of this appeal may affect the interpretation of other contracts which convey some of the divisible rights in a given story but do not explicitly mention among the conveyed rights the right to make subsequent stories employing the same character, i.e., 'sequels' [and because] a proper decision as to what the parties intended in this case may largely depend upon the general custom and expectations of authors and of members of the publishing, broadcasting, and film vocations [and] we have before us no evidence as to these customs and expectations. Many authors have used characters they created in one novel in a whole series of subsequent works; surely it would be rash of us to hold on summary judgment that the sale of rights in one of an author's works ends, without specific mention that it ends, the author's exclusive ownership of the valuable characters he created in that one work, when he may well desire to create sequels of his own using these same characters. . . ." Judge Lumbard, however, found it "difficult to imagine a broader transfer of rights than that which these parties drafted."

**Rey v. Lafferty, 990 F.2d 1379 (1st Cir.), cert. denied, 510 U.S. 828
(1993)**

CYR, CIRCUIT JUDGE

Margret Rey . . . owns the copyright to the "Curious George" children's books. . . . Lafferty Harwood & Partners ["Lafferty"] . . . appeals the district court order awarding Rey damages . . . [on account of Lafferty's licensing of] certain . . . "Curious George" products . . . [including videos].

I. Background

"Curious George" is an imaginary monkey whose antics are chronicled in seven books, written by Margret and H. A. Rey, which have entertained readers since

the 1940s. A mischievous personality consistently lands Curious George in amusing scrapes and predicaments. The more recent “monkey business”—leading to the present litigation—began in 1977 when Margret Rey granted Milktrain Productions an option to produce and televise 104 animated “Curious George” film episodes. The option agreement was contingent on Milktrain’s obtaining financing for the film project. . . .

Milktrain approached [Lafferty], a Canadian investment firm, to obtain financing for the project. [Lafferty] agreed to fund the venture by selling shares in the project to investors (hereinafter: the “Milktrain Agreement”); [Lafferty] and its investors were to divide a 50% share of Milktrain’s profits on the films and on any future ancillary products.

With the financing commitment in place, Rey granted Milktrain and [Lafferty] a limited license “to produce (within a two-year period from the date of exercise) one hundred and four (104) four minute film episodes based on the [“Curious George”] character solely for broadcast on television” (hereinafter: the “Rey License”). Rey was to receive a fee for assisting with the editing and production of the episodes, and an additional royalty amounting to 10% of the revenues from any film telecasts. . . .

The film project soon encountered delays and financial setbacks. By early 1979, though only 32 of the 104 episodes had been completed, the original investment funds had been virtually exhausted. In order to rescue the project and complete the films to Rey’s satisfaction, [Lafferty] offered to arrange additional financing. In consideration, [Lafferty] insisted that the Milktrain Agreement be revised to permit [Lafferty] to assume control of the film production process and to receive higher royalties on the completed episodes. Milktrain assented to these revisions, and the revised Milktrain Agreement . . . was signed on November 5, 1979. . . .

On November 5, 1979, concurrently with the execution of the Revised Milktrain Agreement, a revised version of the Rey License (hereinafter: the [“Revised License”]) was executed . . . superseding the original Rey License. The [Revised License] recited that the original Rey License had granted Milktrain and [Lafferty] the right to produce and distribute animated “Curious George” films “for television viewing.” . . .

As agreed, [Lafferty] undertook to arrange further financing to complete the film project. . . .

Production of the 104 TV episodes was completed in 1982. . . .

Beginning in 1983, the “Curious George” TV episodes were licensed [by Lafferty] to Sony Corporation, which transferred the images from the television film negatives to videotape. [Lafferty] takes the position that the Sony video license was entered pursuant to the [Revised License]. . . .

On February 8, 1991, Rey filed suit against . . . [Lafferty], in connection with [Lafferty]’s continuing, allegedly unauthorized production of the . . . Sony videos. Rey’s complaint alleged violations of federal copyright, trademark and unfair-competition statutes, breach of contract, and violations of Mass. Gen. L. ch. 93A (“chapter 93A”); it sought to enjoin further violations and to recover unpaid royalties on the . . . videos. . . .

After a four-day bench trial, the district court found for Rey on her claims for breach of contract. . . .

II. Discussion

. . . [Lafferty]’s claim to the Sony video royalties is . . . complicated: . . . might they [the videos] . . . have been covered by the grant of rights in the [Revised License],

which licensed [Lafferty] to produce the 104 episodes “for television viewing”? The district court thought not: the parties’ “reference to television viewing . . . in a licensing agreement . . . does not include [video technology] . . . which probably was not in existence at the time that the rights were given.”

a. “New Uses” and Copyright Law.

For purposes of the present appeal, we accept the uncontested district court finding that the relevant video technology “was not in existence at the time that the rights” were granted under the [Revised License] in January 1979. Consequently, it must be inferred that the parties did not specifically contemplate television “viewing” of the “Curious George” films in videocassette form at the time the [Revised License] was signed. Such absence of specific intent typifies cases which address “new uses” of licensed materials, i.e., novel technological developments which generate unforeseen applications for a previously licensed work. See *Melville B. Nimmer and David Nimmer, 3 Nimmer on Copyright § 10.10[B]* at 10–85 (1992) (“Nimmer”) (“the . . . fact that we are most often dealing with a later developed technological process (even if it were known in some form at the time of execution) suggests that the parties’ ambiguous phraseology masks an absence of intent rather than a hidden intent which the court simply must ‘find’”).

Normally, in such situations, the courts have sought at the outset to identify any indicia of a mutual general intent to apportion rights to “new uses,” insofar as such general intent can be discerned from the language of the license, the surrounding circumstances, and trade usage. See, e.g., *Murphy v. Warner Bros. Pictures, Inc.*, 112 F.2d 746, 748 (9th Cir. 1940) (grant of “complete and entire” motion picture rights to licensed work held to encompass later-developed sound motion picture technology); *Filmvideo Releasing Corp. v. Hastings*, 446 F. Supp. 725 (S.D.N.Y. 1978) (author’s explicit retention of “all” television rights to licensed work, in grant of motion picture rights predating technological advances permitting movies to be shown on television, included retention of right to show motion picture on television). Where no reliable indicia of general intent are discernible, however, courts have resorted to one of several interpretive methods to resolve the issue on policy grounds.

Under the “preferred” method, see 3 *Nimmer* at 10–85, recently cited with approval in *SAPC, Inc. v. Lotus Development Corp.*, 921 F.2d 360, 363 (1st Cir. 1990), the court will conclude, absent contrary indicia of the parties’ intent, that “the licensee may properly pursue any uses which may reasonably be said to fall within the medium as described in the license.” 3 *Nimmer* at 10–86. Under this interpretive method, the courts will presume that at least the possibility of non-specific “new uses” was foreseeable by the contracting parties at the time the licensing agreement was drafted; accordingly, the burden and risk of drafting licenses whose language anticipates the possibility of any particular “new use” are apportioned equally between licensor and licensee. See, e.g., *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 155 (2d Cir.), cert. denied, 393 U.S. 826, 21 L. Ed. 2d 96, 89 S. Ct. 86 (1968) (“if the words [of the license] are broad enough to cover the new use, . . . the burden of framing and negotiating an exception should fall on the grantor” of the licensed rights).

An alternative interpretive method is to assume that a license of rights in a given medium (e.g., ‘motion picture rights’) includes only such uses as fall within the unambiguous core meaning of the term . . . and excludes any uses which lie

within the ambiguous penumbra (e.g., exhibition of motion picture film on television). Thus any rights not expressly (in this case meaning unambiguously) granted are reserved. See 3 Nimmer at 10–85; see also *Bourne Co. v. Walt Disney Co.*, 1992 Copyr. L. Rep. (CCH) P 26,934 (S.D.N.Y. 1992) (“if the disputed use was not invented when the parties signed their agreement, that use is not permitted under the contract”). This method is intended to prevent licensees from “reaping the entire windfall” associated with the new medium,” *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854 (9th Cir. 1988) (quoting Neil S. Nagano, Comment, Past Software Licenses and the New Video Software Medium, 29 U.C.L.A. L. Rev. 1160, 1184 (1982)), and is particularly appropriate in situations which involve overreaching or exploitation of unequal bargaining power by a licensee in negotiating the contract. See, e.g., *Bartsch*, 391 F.2d at 154 & n.2 (citing *Ettore v. Philco Television Broadcasting Corp.*, 229 F.2d 481 (3d Cir. 1955) (suggesting narrow construction where licensor was not “an experienced businessman” and had no “reason to know of the . . . potential” for new uses at the time he signed the relevant agreement)). It may also be appropriate where a particular “new use” was completely unforeseeable and therefore could not possibly have formed part of the bargain between the parties at the time of the original grant. *Cohen*, 845 F.2d at 854; *Kirke La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79, 188 N.E. 163 (1933). Obviously, this method may be less appropriate in arm’s-length transactions between sophisticated parties involving foreseeable technological developments; in such situations, narrow construction of license grants may afford an unjustifiable windfall to the licensor, who would retain blanket rights to analogous “new uses” of copyright material notwithstanding the breadth of the bargained-for grant. See generally 3 Nimmer at 10–85 (“it is surely more arbitrary and unjust to put the onus on the licensee by holding that he should have obtained a further clarification of a meaning which was already present than it is to hold that the licensor should have negated a meaning which the licensee might then or thereafter rely upon.”). [n7—The problem becomes particularly acute when the analogous technology develops so rapidly as to supplant the originally contemplated application of the licensed work, rendering the parties’ original bargain obsolete. Thus, for example, broad grants of “motion picture rights,” made before technological advances permitted the combination of moving images with sound, later were held, typically, to encompass the rights to sound motion picture technology; a narrower holding would have left the original license virtually worthless, despite its broad language, and would have provided the licensor with an undeserved windfall. See, e.g., *Murphy*, 112 F.2d at 748; *L.C. Page & Co. v. Fox Film Corp.*, 83 F.2d 196 (2d Cir. 1936).]

b. Video Technology as “New Use.”

These fine-tuned interpretive methods have led to divergent results in cases considering the extension of television rights to new video forms. Thus, for example, in *Rooney v. Columbia Pictures Industries Inc.*, 538 F. Supp. 211 (S.D.N.Y.), aff’d, 714 F.2d 117 (2d Cir. 1982), cert. denied, 460 U.S. 1084, 76 L. Ed. 2d 346, 103 S. Ct. 1774 (1983), the court determined that a series of contracts granting motion picture distributors a general license to exhibit plaintiffs’ films “by any present or future methods or means” and “by any means now known or unknown” fairly encompassed the right to distribute the films by means of later-developed video technology.

The contracts in question gave defendants extremely broad rights in the distribution and exhibition of pre-1960 films, plainly intending that such rights would be without limitation unless otherwise specified and further indicating that future technological advances in methods of reproduction, transmission and exhibition would inure to the benefit of defendants.

Similarly, in *Platinum Record Co. v. Lucasfilm, Ltd.*, 566 F.Supp. 226, 227 (D. N.J. 1983), the court held that videocassette rights were encompassed by a broad synchronization license to “exhibit, distribute, exploit, market, and perform [a motion picture containing licensed musical composition] . . . perpetually throughout the world by any means or methods now or hereafter known.” Again, the court rested its holding on the “extremely broad and completely unambiguous” contractual grant of general rights to applications of future technologies, which was held to “preclude [] any need in the Agreement for an exhaustive list of specific potential uses of the film.” *Id.*

By contrast, in *Cohen*, 845 F.2d 851 at 853–54, the Ninth Circuit concluded that a 1969 contract granting rights to “the exhibition of [a] motion picture [containing a licensed work] . . . by means of television,” but containing a broad restriction reserving to the licensor “all rights and uses in and to said musical composition, except those herein granted,” did not encompass the right to revenues derived from sales of the film in videocassette form. After deciding that “the general tenor of the [contract] section [in which the granting clause was found] contemplated some sort of broadcasting or centralized distribution, not distribution by sale or rental of individual copies to the general public,” see *id.* at 853, the court stressed that the playing of videocassettes, with their greater viewer control and decentralized access on an individual basis, did not constitute “exhibition” in the sense contemplated by the contract.

Though videocassettes may be exhibited by using a television monitor, it does not follow that, for copyright purposes, playing videocassettes constitutes “exhibition by television.” . . . Television requires an intermediary network, station, or cable to send the television signals into consumers’ homes. The menu of entertainment appearing on television is controlled entirely by the intermediary and, thus, the consumer’s selection is limited to what is available on various channels. Moreover, equipped merely with a conventional television set, a consumer has no means of capturing any part of the television display; when the program is over it vanishes, and the consumer is powerless to replay it. Because they originate outside the home, television signals are ephemeral and beyond the viewer’s grasp. Videocassettes, of course, allow viewing of a markedly different nature. . . . By their very essence, . . . videocassettes liberate viewers from the constraints otherwise inherent in television, and eliminate the involvement of an intermediary, such as a network. Television and videocassette display thus have very little in common besides the fact that a conventional monitor or a television set may be used both to receive television signals and to exhibit a videocassette. It is in light of this fact that Paramount argues that VCRs are equivalent to “exhibition by means of television.” Yet, even that assertion is flawed. Playing a videocassette on a VCR does not require a standard television set capable of receiving television signals by cable or by broadcast; it is only necessary to have a monitor capable of displaying the material on the magnetized tape.

Id. at 853–54.

Most recently, in *Tele-Pac, Inc. v. Grainger*, 168 A.D.2d 11, 570 N.Y.S.2d 521,

appeal dismissed, 79 N.Y.2d 822, 580 N.Y.S.2d 201, 588 N.E.2d 99 (1991), the court held (one judge dissenting) that a license to distribute certain motion pictures “for broadcasting by television or any other similar device now known or hereafter to be made known” did not encompass the videocassette film rights. “Transmission of sound and images from a point outside the home for reception by the general public . . . is implicit in the concept of ‘broadcasting by television.’ Conversely, while one may speak of ‘playing,’ ‘showing,’ ‘displaying,’ or even perhaps ‘exhibiting’ a videotape, we are unaware of any usage of the term ‘broadcasting’ in that context.” *Id.* at 523.

c. Video Rights and the [Revised License].

Although the question is extremely close, under the interpretive methodology outlined above we conclude that the [Revised License]’s grant of rights to the 104 film episodes “for television viewing” did not encompass the right to distribute the “Curious George” films in videocassette form.

First, unlike the contracts in *Rooney and Lucasfilm*, the [Revised License] contained no general grant of rights in technologies yet to be developed, and no explicit reference to “future methods” of exhibition. Compare *Lucasfilm*, 566 F.Supp. at 227; *Rooney*, 538 F.Supp. at 228. Rather, the [Revised License] appears to contemplate a comparatively limited and particular grant of rights, encompassing only the 104 film episodes and leaving future uses of “Curious George” to later negotiation in the ancillary products agreement. Although the [Revised License] conversely contains no “specific limiting language,” compare *Cohen*, 845 F.2d at 853, we believe such limitation is reasonably inferable from the situation of the parties and the “general tenor of the section” in which the “television viewing” rights were granted.

Second, as properly noted in *Cohen*, “television viewing” and “videocassette viewing” are not coextensive terms. Even though videocassettes may be, and often are, viewed by means of VCRs on home television screens, see, e.g., *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984) (noting prevalent use of videocassette recorders for “time-shifting” of commercial television programming); *Rooney*, 538 F. Supp. at 228 (“whether the exhibition apparatus is a home videocassette player or a television station’s broadcast transmitter, the films are ‘exhibited’ as images on home television screens”), still, as the Ninth Circuit pointed out, a “standard television set capable of receiving television signals” is not strictly required for videocassette viewing. *Cohen*, 845 F.2d at 854. “It is only necessary to have a monitor capable of displaying the material on the magnetized tape.” *Id.* Indeed, a number of non-television monitors recently marketed in the United States permit videocassette viewing on computer screens, flat-panel displays, and the like. Thus, we find insufficient reliable indicia of a contrary mutual intent on the part of Rey and [Lafferty] to warrant disturbing the district court’s implicit determination that the language of the [Revised License] is not “broad enough to cover the new use.” *Bartsch*, 391 F.2d at 155.

Finally, any lingering concerns about the correctness of the district court’s interpretation are dispelled by the evidence that the [Revised License] (including its “television viewing” clause) was drafted and proposed by [Lafferty], a professional investment firm accustomed to licensing agreements. Rey, an elderly woman, does not appear to have participated in its drafting, and, indeed, does not appear to have been represented by counsel during the larger part of the

transaction. Under these circumstances, . . . ambiguities in the drafting instrument are traditionally construed against the licensor and the drafter. See also Nimmer at 10–71 (“ambiguities [in licensing agreements] will generally be resolved against the party preparing the instrument of transfer”); *U.S. Naval Institute v. Charter Communications, Inc.*, 875 F.2d 1044, 1051 (2d Cir. 1989) (interpreting ambiguous copyright assignment against sophisticated drafting party); see generally, e.g., *Merrimack Valley Nat’l Bank v. Baird*, 372 Mass. 721, 724, 363 N.E.2d 688, 690 (1977) (“as a general rule, a writing is construed against the author of the doubtful language . . . if the circumstances surrounding its use and the ordinary meaning of the words do not indicate the intended meaning of the language”).

Accordingly, as the Sony videocassette sales were not encompassed by the [Revised License] . . . , and we affirm the award . . . to Rey. . . .

NOTES

1. As discussed by the court in the *Rey* decision, *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988), held that the 1968 grant to the studio of the right to include plaintiff’s song in the soundtrack of the film “Medium Cool” and to exhibit the film “by means of television” was held to exclude distribution on home video cassettes, where the basic technology existed at the time of the grant and the contract reserved “all rights and uses except those . . . herein granted.” A contrary result was reached in *Bloom v. Hearst Entertainment, Inc.*, 33 F.3d 518 (5th Cir. 1994), in which a grant of rights which included “worldwide motion picture and television rights” was held to be ambiguous, despite a contractual reservation of all rights not expressly granted. “At its most basic level,” the court asked, “what is a video, if not a motion picture displayed on a television set? This observation is also supported by the precise definitions of the relevant terms. Webster’s Ninth New Collegiate Dictionary defines video as follows: “a recording of a *motion picture or television program* for playing through a *television set*” (emphasis provided). It is not unreasonable to conclude that video rights lie at the intersection of motion picture and television rights, and hence, a grant of motion picture and television rights could include video rights as well.”

Despite the presence of a general “reservation of all rights not granted” clause, “in light of the specific recitals of rights reserved immediately following it, this general reservation clause is of little benefit . . . [H]aving chosen not to specifically reserve the video rights in their reservation clause, the appellants cannot prosper by this boilerplate, catch-all clause. . . .”

2. In *Bourne v. Walt Disney Co.*, 68 F.3d 621 (2d Cir. 1995), cert. denied 517 US. 1240 (1996), the Second Circuit held that when Disney conveyed music publishing rights in certain film music to Bourne’s predecessor in interest reserving a license to use such compositions “in synchronism with any and all of the motion pictures which may be made by [Disney],” such reservation was sufficiently broad to permit Disney to manufacture and distribute videocassettes embodying “Pinocchio” but not to permit use of the licensed compositions in television commercials promoting the sale thereof.

The Second Circuit distinguished *Cohen* and *Rey*, as well as *Tele-Pac, Inc. v. Grainger*, 570 N.Y. 2d 521 (1st Dept. 1991), stating that the latter cases did not present the precise issue of whether the term *motion pictures* would permit videocassette synchronization. Citing the Senate Report on what became the 1976 Copyright Act (“the physical form in which the motion picture is fixed—film, tape, disc, and so forth, is irrelevant . . .” S.Rep. No. 72, 92d Cong. 1st Sess. 5 [1971]), the court agreed with the decision in *Bloom*, and found that the language was broad enough to encompass home video, and in response to Bourne’s argument that videocassette technology was unknown during the 1930s when

the deal was made, the court cited evidence produced by Disney indicating that home viewing of motion pictures was already in contemplation at that time.

3. See, also, *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481 (2d Cir. 1998), in which a 1939 grant of rights “to record in any manner, medium or form . . . in [a] motion picture” was sufficient to cover home video, where the court found (at p. 486) that Disney had provided unrefuted evidence that a “nascent market for home viewing of feature films existed by 1939.”

4. *Kelly v. William Morrow*, 186 Cal.3d 1625, 231 Cal.Rptr. 497 (1986) involved a claim that Joseph Wambaugh’s *Lines and Shadows*, an account of the activities of San Diego police officers assigned to the Border Alien Robbery Force (BARF), a unit formed to control criminal activities in the Mexican border area, exceeded the scope of the written waiver executed by Kelly, a member of BARF. Following publication of the book, Kelly (who had been paid \$5,000 for the waiver) sued for invasion of privacy, libel, slander, breach of contract, fraud, and negligent infliction of emotional distress, claiming the book contained false statements and inaccuracies, portrayed him as frivolous, flippant, and irresponsible toward his job as a police officer, and related fictitious events. While reversing the trial court’s dismissal of the other claims in the action, the court of appeal sustained the lower court’s dismissal of Kelly’s breach of contract action. The waiver included “the exclusive and irrevocable right and license to use, simulate and portray [Kelly’s] likeness, activities, experiences and career and to use [his] name in and in connection with the production, exhibition, advertising and other exploitation of a motion picture, photoplay or photoplays and book, or other printed material [and] the right to depict and/or portray [Kelly] to such extent and in such manner, either factually or fictionally as [defendants in their] discretion and pursuant to any contract with [Kelly] may determine and the right to distribute, exhibit or otherwise exploit any such photoplay by any method and in any manner, including theatrically and nontheatrically and by means of television or otherwise.” The court found viable causes of action for defamation, libel and slander. “Fairly construed,” the court stated, “[E]xtracts [from the book submitted by Kelly] depict Kelly as lecherous, heavy-drinking, promiscuous, unfaithful and untruthful to his wife, loud, raucous, blasphemous, profane, acting as a pimp for his fellow officers, and vacuous. Kelly labels marital discord episodes written vividly and profusely as false as well as happenings on the border during BARF forays. Kelly denies the attribution to him of remarks concerning BARF squad members as being psychotic, alcoholic, dangerous, and violent.” In addition, “Kelly alleges a number of statements in the book are false. The breach of contract and fraud causes of action plead the waiver granted Wambaugh the right to depict Kelly factually or fictionally but not both. Kelly claims the book is half factual and half fictional [.] the waiver does not constitute a consent to the mix of fact and fiction in the book, [and] the waiver requires the defendants to elect a factual or a fictional account of his BARF adventures because the word ‘or’ requires a choice between the two and prohibits their commingling into a factual-fictional account.” Applying normal rules of construction, the court said, “or” would typically be seen as disjunctive, i.e., “either one or the other.”

“The waiver is replete with suggestions Kelly’s depiction is not limited to either a factual or fictional portrayal . . . ‘Depict’ means to form a likeness by drawing or painting, or in other ways as tapestries or carvings and to portray in words (*Webster’s Third New Internat. Dict., op. cit. supra*, at p. 605). ‘Portray’ is to represent by drawing or painting, to make a picture or image, and to describe in words: present a verbal picture of (a novelist who [portrays] life the way most of us see it—Bernice Matlowksy) . . . to play the role of: represent dramatically. . . .”

“A book about Kelly’s life and BARF experiences in wholly factual terms would be a combination of autobiographical data typically found in a ‘Who’s Who’ of Podunk and a police report on a BARF incident. While occasionally interesting, such factual stuff does not find its way to the bestseller lists and we surmise the subject is not paid \$5,000 for the right to use his name. The use in the waiver of the words ‘simulate,’ ‘depict,’ ‘portray’

and our own reading of historical documentaries and novels compel the conclusion Kelly consented to publication of a mixed bag of fact and fiction. The demurrer to the breach of contract cause of action was correctly sustained.” On the issues of defamation, privacy and emotional distress, however, “[w]e cannot say as a matter of law the rights given in the waiver include a license to defame, slander and libel Kelly. The waiver is not clear or certain. The waiver is ambiguous. The waiver does not suggest Kelly was aware he waived his rights to privacy. . . . We conclude the extent of the privileges conferred by the waiver must be determined in the light of the circumstances in which it was executed. Kelly’s entitlement to a prepublication review under the terms of the waiver must likewise be considered. Whether Kelly sold his birthright to privacy for a mess of pottage when he signed the waiver can only be determined by a trier of fact.”

4.2.2 The Scope of Acquired Rights: Legally Imposed Limitations

Sometimes the meaning of a contract is clear, but one party contends that greater rights were transferred by the contract than the law itself permits, and therefore the other party did not effectively acquire all of the rights it thought it had. While generally American law permits people to make their own deals—to sell or license, in other words, whatever they may own—there are certain provisions of copyright law which do have the effect of preventing copyright owners from conveying everything that others might be willing and even anxious to acquire. Three such provisions of copyright law are the compulsory mechanical license provision of the Copyright Act of 1976, the termination of transfer provisions of the Copyright Act of 1976, and the renewal provision of the Copyright Act of 1909.

The “compulsory mechanical license” provision of the Copyright Act has the effect of preventing songwriters and music publishers from granting *exclusive* licenses to recording artists or record companies, at any price. Moreover, if an agreement between a music publisher and a record company were to purport to grant the record company exclusive recording rights to a song, the “compulsory mechanical license” would make the exclusivity clause of that agreement completely unenforceable. The compulsory mechanical license provision of the Copyright Act, as it currently reads, is set out below and is followed by an excerpt from a case which explains its history and its impact on the size of the fees that are paid for music recording licenses. It is important to note that Section 115 of the Copyright Act now covers “digital phonorecord deliveries” as well as traditional hard copies.

The “termination of transfer” provisions of the Copyright Act of 1976 have the effect of permitting authors (or their heirs) to terminate assignments and licenses, after a period of time, even if they had expressly agreed by contract not to do so. These provisions are set forth below.

The renewal provisions of the Copyright Act of 1909 have the effect of invalidating agreements which purport to transfer rights to be exercised during copyright renewal terms, under certain circumstances. Two cases illustrating this effect are reproduced below.

Copyright Act of 1976, § 115(a)(1); 17 U.S.C. § 115(a)(1)

In the case of nondramatic musical works, the exclusive rights . . . to make and to distribute phonorecords of such works, are subject to compulsory licensing under the conditions specified by this section.

(a) Availability and Scope of Compulsory License.—

(1) When phonorecords of a nondramatic musical work have been distributed to the public in the United States under the authority of the copyright owner, any other person, including those who make phonorecords or digital phonorecord deliveries may, by complying with the provisions of this section, obtain a compulsory license to make and distribute phonorecords of the work . . . if his or her primary purpose in making phonorecords is to distribute them to the public for private use, including by means of a digital phonorecord delivery. . . .

**Recording Industry Ass'n of America v. Copyright Royalty Tribunal,
662 F.2d 1 (D.C. Cir. 1981)**

CIRCUIT JUDGE MIKVA

These consolidated cases present various challenges to a rulemaking proceeding of the Copyright Royalty Tribunal (“Tribunal”), in which the Tribunal increased the royalty payable under the compulsory license for making and distributing phonorecords of copyrighted musical works. . . .

The royalty determinations challenged in this proceeding concern the compulsory license for phonorecords under the Copyright Act. Once the creator of a nondramatic musical work has allowed phonorecords of that work to be produced and distributed, the statute requires him to grant a license upon request to any other person who proposes to make and distribute phonorecords of the work, at a royalty rate set by law. [n2—The payments are known in the trade as “mechanical royalties,” reflecting the language of the 1909 Act. Since the present case deals only with the license of phonorecords, no confusion need arise from our omission of the adjective “mechanical.” . . .] This compulsory licensing scheme is one of several established by the Copyright Act, and determination of the appropriate royalty rates is one of the principal functions Congress . . . [originally] assigned to the Copyright Royalty Tribunal [and which now are assigned to Copyright Arbitration Royalty Panels].

The phonorecord compulsory licensing system dates back to 1909, when Congress first extended a composer’s copyright protection to include the right to control manufacture of “parts of instruments serving to reproduce mechanically the musical work.” Industry representatives expressed a fear that this protection ran the risk of “establishing a great music monopoly” because the Aeolian Company, a manufacturer of player-piano rolls, was acquiring exclusive contract rights from composers and publishers. The music industry has undergone major transformations in the intervening years, but record producers have continued to argue that a danger of monopolization and discriminatory practices exists, and Congress has concluded that a compulsory licensing system is still warranted.

Although the availability of the compulsory license under the 1909 Act has been very important to the structure of the recording industry, the statutory procedures for invoking the license have rarely been used. The usual effect of the system is to make the statutory royalty rate a ceiling on the price copyright owners can charge for use of their songs under negotiated contracts: if the owner demands a higher price in voluntary negotiations, the manufacturer can turn to the statutory scheme, but if the owner is willing to accept less than the statutory rate, he is free to do so. [n7—The compulsory license applies only to the second and subsequent recordings of a musical work, after the copyright owner has authorized a first recording to be made. He is theoretically free to negotiate a

higher price for the first recording. Also, the compulsory license and its royalty rate apply only to use of the musical work, not the other talents of the copyright owner; if the composer is also the performer, he is free to negotiate package prices for further recordings by himself of the same song, and the compulsory license only governs renditions of his song by others. . . .]

Copyright Act of 1976, § 203; 17 U.S.C. § 203

Termination of transfers and licenses granted by the author

(a) Conditions for Termination.—In the case of any work other than a work made for hire, the exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright, executed by the author on or after January 1, 1978, otherwise than by will, is subject to termination [by the author, or certain of the author's heirs] under the following conditions: . . .

(3) Termination of the grant may be effected at any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant; or, if the grant covers the right of publication of the work, the period begins at the end of thirty-five years from the date of publication of the work under the grant or at the end of forty years from the date of execution of the grant, whichever term ends earlier.

(4) The termination shall be effected by serving an advance notice in writing. . . .

(5) Termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant.

(b) Effect of Termination.—Upon the effective date of termination, all rights under this title that were covered by the terminated grants revert to the author, authors, and other persons owning termination interests . . . , but with the following limitations:

(1) A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant. . . .

(4) A further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if it is made after the effective date of the termination. As an exception, however, an agreement for such a further grant may be made between the [author, or the author's heirs] . . . and the original grantee or such grantee's successor in title, after the notice of termination has been served. . . .

Copyright Act of 1976, § 304(c); 17 U.S.C. § 304(c)

Termination of Transfers and Licenses Covering Extended Renewal Term.—In the case of any copyright subsisting in either its first or renewal term on January 1, 1978, other than a copyright in a work made for hire, the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978 . . . , otherwise than by will, is subject to termination [by the author, or certain of the author's heirs] . . . under the following conditions:

(3) Termination of the grant may be effected at any time during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later. . . .

(5) Termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant.

(6) . . . In all cases the reversion of rights is subject to the following limitations:

(A) A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but

this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant. . . .

(D) A further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if it is made after the effective date of the termination. As an exception, however, an agreement for such a further grant may be made between the author or [the author's heirs] and the original grantee or such grantee's successor in title, after the notice of termination has been served. . . .

NOTE

The Sonny Bono Copyright Term Extension Act of 1998, P.L. 105–298, 112 Stat. 2827 (105th Cong. 2d. Sess.) extended the term of copyright by an additional 20 years, and added a new Section 304(d) which permits recapture of the additional twenty years where the author or owner of the termination right has not previously exercised such termination right.

Miller Music Corp. v. Charles N. Daniels, Inc., 362 U.S. 373 (1960)

MR. JUSTICE DOUGLAS delivered the opinion of the Court.

Petitioner, a music publisher, sued respondent, another music publisher, for infringement of petitioner's rights through one Ben Black, as coauthor, in the renewal copyright of the song "Moonlight and Roses." Respondent's motion for summary judgment was granted, and the Court of Appeals affirmed by a divided vote. The case is here on a petition for a writ of certiorari which we granted.

The facts are stipulated. Ben Black and Charles Daniels composed the song and assigned it to Villa Moret, Inc., which secured the original copyright. Prior to the expiration of the 28-year term, Black assigned to petitioner his renewal rights in this song in consideration of certain royalties and the sum of \$1,000. Black had no wife or child; and his next of kin were three brothers. Each of them executed a like assignment of his renewal expectancy and delivered it to petitioner. These assignments were recorded in the copyright office. Before the expiration of the original copyright, Black died, leaving no widow or child. His will contained no specific bequest concerning the renewal copyright. His residuary estate was left to his nephews and nieces. One of the brothers qualified as executor of the will and renewed the copyright for a further term of 28 years. The probate court decreed distribution of the renewal copyright to the residuary legatees. Respondent then obtained assignments from them.

The question for decision is whether by statute the renewal rights accrue to the executor in spite of a prior assignment by his testator. Section 24 of the Copyright Act of 1909, after stating that "the proprietor of such copyright shall be entitled to a renewal and extension of the copyright in such work for the further term of twenty-eight years," goes on to provide:

That . . . the author of such work, if still living, or the widow, widower, or children of the author, if the author be not living, or if such author, widow, widower, or children be not living, then the author's executors, or in the absence of a will, his next of kin shall be entitled to a renewal and extension of the copyright in such work for a further term of twenty-eight years when application for such renewal and extension shall have been made to the copyright office and duly registered therein within one year prior to the expiration of the original term of copyright.

An assignment by an author of his renewal rights made before the original copyright expires is valid against the world, if the author is alive at the commencement of the renewal period. *Fisher Co. v. Witmark & Sons* so holds. It is also clear, all questions of assignment apart, that the renewal rights go by statute to an executor, absent a widow or child. *Fox Film Corp. v. Knowles*.

Petitioner argues that the executor's right under the statute can be defeated through a prior assignment by the testator. If the widow, widower, and children were the claimants, concededly no prior assignment could bar them. For they are among those to whom §24 has granted the renewal right, irrespective of whether the author in his lifetime has or has not made any assignment of it. Petitioner also concedes—and we see no rational escape from that conclusion—that where the author dies intestate prior to the renewal period leaving no widow, widower, or children, the next of kin obtain the renewal copyright free of any claim founded upon an assignment made by the author in his lifetime. These results follow not because the author's assignment is invalid but because he had only an expectancy to assign; and his death, prior to the renewal period, terminates his interest in the renewal which by §24 vests in the named classes. The right to obtain a renewal copyright and the renewal copyright itself exist only by reason of the Act and are derived solely and directly from it.

We fail to see the difference in this statutory scheme between widows, widowers, children, or next of kin on the one hand and executors on the other. The hierarchy of people granted renewal rights by §24 are first, the author if living; second, the widow, widower, or children, if he or she is not living; third, his or her executors if the author and the widow, widower, or children are not living; fourth, in absence of a will, the next of kin. True, these are disparate interests. Yet Congress saw fit to treat them alike. It seems clear to us, for example, that by the force of §24, if Black had died intestate, his next of kin would take as against the assignee of the renewal right. Congress in its wisdom expressed a preference for that group against the world, if the author, the widow, the widower, or children are not living. By §24 his executors are placed in the same preferred position, unless we refashion §24 to suit other policy considerations. Of course an executor usually takes in a representative capacity. He "represents the person of his testator" as *Fox Film Corp. v. Knowles* states. And that normally means that when the testator has made contracts, the executor takes cum onere. Yet it is also true, as pointed out in *Fox Film Corp. v. Knowles* that "it is no novelty" for the executor "to be given rights that the testator could not have exercised while he lived." It is clear that under this Act the executor's right to renew is independent of the author's rights at the time of his death. What Congress has done by §24 is to create contingent renewal rights. Congress has provided that, when the author dies before the renewal period arrives, special rules in derogation of the usual rules of succession are to apply for the benefit of three classes of people—(1) widows, widowers, and children; (2) executors; and (3) next of kin. We think we would redesign §24 if we held that executors, named as one of the preferred classes, do not acquire the renewal rights, where there has been a prior assignment, though widows, widowers, and children or next of kin would acquire them. Certainly *Fox Film Corp. v. Knowles* states that what one of the three could have done, either of the others may do. Mr. Justice Holmes speaking for the Court said:

No one doubts that if Carleton had died leaving a widow she could have applied as the executor did, and executors are mentioned alongside of the widow with no suggestion in the statute that when executors are the proper persons, if anyone, to make the claim, they cannot make it whenever a widow might have made it. The next of kin come after the executors. Surely they again have the same rights that the widow would have had.

The legislative history supports that view:

Instead of confining the right of renewal to the author, if still living, or to the widow or children of the author, if he be dead, we provide that the author of such work, if still living, may apply for the renewal, or the widow, widower, or children of the author, if the author be not living, or if such author, widow, widower, or children be not living, then the author's executors, or, in the absence of a will, his next of kin. It was not the intention to permit the administrator to apply for the renewal, but to permit the author who had no wife or children to bequeath by will the right to apply for the renewal.

The category of persons entitled to renewal rights therefore cannot be cut down and reduced as petitioner would have us do. Section 24 reflects, it seems to us, a consistent policy to treat renewal rights as expectancies until the renewal period arrives. When that time arrives, the renewal rights pass to one of the four classes listed in §24 according to the then-existing circumstances. Until that time arrives, assignees of renewal rights take the risk that the rights acquired may never vest in their assignors. A purchaser of such an interest is deprived of nothing. Like all purchasers of contingent interests, he takes subject to the possibility that the contingency may not occur. For example, an assignment from an author and his wife will be ineffective, if on his death another woman is the widow. Examples could be multiplied. We have said enough, however, to indicate that there is symmetry and logic in the design of §24. Whether it works at times an injustice is a matter for the Congress, not for us.

Affirmed.

MR. JUSTICE HARLAN, with whom Mr. Justice Frankfurter, Mr. Justice Whittaker, and Mr. Justice Stewart join, dissenting. . . .

Stewart v. Abend, 495 U.S. 207, 110 S.Ct. 1750 (1990)

JUSTICE O'CONNOR delivered the opinion of the Court.

The author of a pre-existing work may assign to another the right to use it in a derivative work. In this case the author of a pre-existing work agreed to assign the rights in his renewal copyright term to the owner of a derivative work, but died before the commencement of the renewal period. The question presented is whether the owner of the derivative work infringed the rights of the successor owner of the pre-existing work by continued distribution and publication of the derivative work during the renewal term of the pre-existing work.

I

Cornell Woolrich authored the story "It Had to Be Murder," which was first published in February 1942 in *Dime Detective Magazine*. The magazine's publisher, Popular Publications, Inc., obtained the rights to magazine publication of

the story and Woolrich retained all other rights. Popular Publications obtained a blanket copyright for the issue of Dime Detective Magazine in which “It Had to Be Murder” was published.

The Copyright Act of 1909 provided authors a 28-year initial term of copyright protection plus a 28-year renewal term. In 1945, Woolrich agreed to assign the rights to make motion picture versions of six of his stories, including “It Had to Be Murder,” to B. G. De Sylva Productions for \$9,250. He also agreed to renew the copyrights in the stories at the appropriate time and to assign the same motion picture rights to De Sylva Productions for the 28-year renewal term. In 1953, actor Jimmy Stewart and director Alfred Hitchcock formed a production company, Patron, Inc., which obtained the motion picture rights in “It Had to Be Murder” from De Sylva’s successors in interest for \$10,000.

In 1954, Patron, Inc., along with Paramount Pictures, produced and distributed, “Rear Window,” the motion picture version of Woolrich’s story “It Had to Be Murder.” Woolrich died in 1968 before he could obtain the rights in the renewal term for petitioners as promised and without a surviving spouse or child. He left his property to a trust administered by his executor, Chase Manhattan Bank, for the benefit of Columbia University. On December 29, 1969, Chase Manhattan Bank renewed the copyright in the “It Had to Be Murder” story pursuant to 17 U.S.C. §24. Chase Manhattan assigned the renewal rights to respondent Abend for \$650 plus 10% of all proceeds from exploitation of the story.

“Rear Window” was broadcast on the ABC television network in 1971. Respondent then notified petitioners Hitchcock (now represented by co-trustees of his will), Stewart, and MCA Inc., the owners of the “Rear Window” motion picture and renewal rights in the motion picture, that he owned the renewal rights in the copyright and that their distribution of the motion picture without permission infringed his copyright in the story. Hitchcock, Stewart, and MCA nonetheless entered into a second license with ABC to rebroadcast the motion picture. In 1974, respondent filed suit against these same petitioners, and others, in the United States District Court for the Southern District of New York, alleging copyright infringement. Respondent dismissed his complaint in return for \$25,000.

Three years later, the United States Court of Appeals for the Second Circuit decided *Rohauer v. Killiam Shows, Inc.*, 551 F.2d 484, cert. denied, 431 U.S. 949 (1977), in which it held that the owner of the copyright in a derivative work may continue to use the existing derivative work according to the original grant from the author of the pre-existing work even if the grant of rights in the pre-existing work lapsed. [The Copyright Act of 1976 codified the definition of a “derivative work” as “a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version . . . or any other form in which a work may be recast, transformed, or adapted.”] Several years later, apparently in reliance on *Rohauer*, petitioners re-released the motion picture in a variety of media, including new 35 and 16 millimeter prints for theatrical exhibition in the United States, videocassettes, and videodiscs. They also publicly exhibited the motion picture in theaters, over cable television, and through videodisc and videocassette rentals and sales.

Respondent then brought the instant suit in the United States District Court for the Central District of California against Hitchcock, Stewart, MCA, and Universal Film Exchanges, a subsidiary of MCA and the distributor of the motion picture. Respondent’s complaint alleges that the re-release of the motion picture

infringes his copyright in the story because petitioners' right to use the story during the renewal term lapsed when Woolrich died before he could register for the renewal term and transfer his renewal rights to them. Respondent also contends that petitioners have interfered with his rights in the renewal term of the story in other ways. He alleges that he sought to contract with Home Box Office (HBO) to produce a play and television version of the story, but that petitioners wrote to him and HBO stating that neither he nor HBO could use either the title, "Rear Window" or "It Had to Be Murder." Respondent also alleges that petitioners further interfered with the renewal copyright in the story by attempting to sell the right to make a television sequel and that the re-release of the original motion picture itself interfered with his ability to produce other derivative works.

Petitioners filed motions for summary judgment, one based on the decision in *Rohauer* and the other based on alleged defects in the story's copyright. Respondent moved for summary judgment on the ground that petitioners' use of the motion picture constituted copyright infringement. Petitioners responded with a third motion for summary judgment based on a "fair use" defense. The District Court granted petitioners' motions for summary judgment based on *Rohauer* and the fair use defense, and denied respondent's motion for summary judgment, as well as petitioners' motion for summary judgment alleging defects in the story's copyright. Respondent appealed to the United States Court of Appeals for the Ninth Circuit and petitioners cross-appealed.

The Court of Appeals reversed, holding that respondent's copyright in the renewal term of the story was not defective. The issue before the court, therefore, was whether petitioners were entitled to distribute and exhibit the motion picture without respondent's permission despite respondent's valid copyright in the pre-existing story. Relying on the renewal provision of the 1909 Act, respondent argued before the Court of Appeals that because he obtained from Chase Manhattan Bank, the statutory successor, the renewal right free and clear of any purported assignments of any interest in the renewal copyright, petitioners' distribution and publication of "Rear Window" without authorization infringed his renewal copyright. Petitioners responded that they had the right to continue to exploit "Rear Window" during the 28-year renewal period, because Woolrich had agreed to assign to petitioners' predecessors in interest the motion picture rights in the story for the renewal period.

Petitioners also relied, as did the District Court, on the decision in *Rohauer v. Killiam Shows, Inc.* In *Rohauer*, the Court of Appeals for the Second Circuit held that statutory successors to the renewal copyright in a pre-existing work under § 24 could not "depriv[e] the proprietor of the derivative copyright of a right . . . to use so much of the underlying copyrighted work as already has been embodied in the copyrighted derivative work, as a matter of copyright law." The Court of Appeals in the instant case rejected this reasoning, concluding that even if the pre-existing work had been incorporated into a derivative work, use of the pre-existing work was infringing unless the owner of the derivative work held a valid grant of rights in the renewal term.

The court relied on *Miller Music Corp. v. Charles N. Daniels* in which we held that assignment of renewal rights by an author before the time for renewal arrives cannot defeat the right of the author's statutory successor to the renewal rights if the author dies before the right to renewal accrues. . . . The Court of Appeals reasoned that "[i]f *Miller Music* makes assignment of the full renewal rights in

the underlying copyright unenforceable when the author dies before effecting renewal of the copyright, then a fortiori, an assignment of part of the rights in the underlying work, the right to produce a movie version, must also be unenforceable if the author dies before effecting renewal of the underlying copyright.” Finding further support in the legislative history of the 1909 Act and rejecting the *Rohauer* court’s reliance on the equities and the termination provisions of the 1976 Act, 17 U.S.C. §§ 203(b)(1), 304(c)(6)(A), the Court of Appeals concluded that petitioners received from Woolrich only an expectancy in the renewal rights that never matured; upon Woolrich’s death, Woolrich’s statutory successor, Chase Manhattan Bank, became “entitled to a renewal and extension of the copyright,” which Chase Manhattan secured “within one year prior to the expiration of the original term of copyright.” Chase Manhattan then assigned the existing rights in the copyright to respondent.

The Court of Appeals also addressed at length the proper remedy, an issue not relevant to the issue on which we granted certiorari. We granted certiorari to resolve the conflict between the decision in *Rohauer* and the decision below. Petitioners do not challenge the Court of Appeals’ determination that respondent’s copyright in the renewal term is valid and we express no opinion regarding the Court of Appeals’ decision on this point.

II

A

Petitioners would have us read into the Copyright Act a limitation on the statutorily created rights of the owner of an underlying work. They argue in essence that the rights of the owner of the copyright in the derivative use of the pre-existing work are extinguished once it is incorporated into the derivative work, assuming the author of the pre-existing work has agreed to assign his renewal rights. Because we find no support for such a curtailment of rights in either the 1909 Act, the 1976 Act, or the legislative history of either, we affirm the judgment of the Court of Appeals.

Petitioners and Amicus Register of Copyrights assert, as the Court of Appeals assumed, that § 24 of the 1909 Act, and the case law interpreting that provision, directly control the disposition of this case. Respondent counters that the provisions of the 1976 Act control, but that the 1976 Act reenacted § 24 in § 304 and, therefore, the language and judicial interpretation of § 24 are relevant to our consideration of this case. Under either theory, we must look to the language of and case law interpreting § 24.

The right of renewal found in § 24 provides authors a second opportunity to obtain remuneration for their works. . . .

Since the earliest copyright statute in this country, the copyright term of ownership has been split between an original term and a renewal term. Originally, the renewal was intended merely to serve as an extension of the original term; at the end of the original term, the renewal could be effected and claimed by the author, if living, or by the author’s executors, administrators or assigns. Congress altered the provision so that the author could assign his contingent interest in the renewal term, but could not, through his assignment, divest the rights of his widow or children in the renewal term. The 1831 renewal provisions created “an entirely new policy, completely dissevering the title, breaking up the continuance . . . and vesting an absolutely new title eo nomine in the persons desig-

nated.” In this way, Congress attempted to give the author a second chance to control and benefit from his work. Congress also intended to secure to the author’s family the opportunity to exploit the work if the author died before he could register for the renewal term. “The evident purpose of [the renewal provision] is to provide for the family of the author after his death. Since the author cannot assign his family’s renewal rights, [it] takes the form of a compulsory bequest of the copyright to the designated persons.”

In its debates leading up to the Copyright Act of 1909, Congress elaborated upon the policy underlying a system comprised of an original term and a completely separate renewal term. “It not infrequently happens that the author sells his copyright outright to a publisher for a comparatively small sum.” The renewal term permits the author, originally in a poor bargaining position, to renegotiate the terms of the grant once the value of the work has been tested. “[U]nlike real property and other forms of personal property, [a copyright] is by its very nature incapable of accurate monetary evaluation prior to its exploitation.” “If the work proves to be a great success and lives beyond the term of twenty-eight years, . . . it should be the exclusive right of the author to take the renewal term, and the law should be framed . . . so that [the author] could not be deprived of that right.” With these purposes in mind, Congress enacted the renewal provision of the Copyright Act of 1909, 17 U.S.C. § 24. With respect to works in their original or renewal term as of January 1, 1978, Congress retained the two-term system of copyright protection in the 1976 Act.

Applying these principles in *Miller Music Corp. v. Charles N. Daniels, Inc.*, this Court held that when an author dies before the renewal period arrives, his executor is entitled to the renewal rights, even though the author previously assigned his renewal rights to another party. . . . The legislative history of the 1909 Act echoes this view: “The right of renewal is contingent. It does not vest until the end [of the original term]. If [the author] is alive at the time of renewal, then the original contract may pass it, but his widow or children or other persons entitled would not be bound by the contract.” Thus, the renewal provisions were intended to give the author a second chance to obtain fair remuneration for his creative efforts and to provide the author’s family a “new estate” if the author died before the renewal period arrived.

An author holds a bundle of exclusive rights in the copyrighted work, among them the right to copy and the right to incorporate the work into derivative works. By assigning the renewal copyright in the work without limitation, as in *Miller Music*, the author assigns all of these rights. After *Miller Music*, if the author dies before the commencement of the renewal period, the assignee holds nothing. If the assignee of all of the renewal rights holds nothing upon the death of the assignor before arrival of the renewal period, then *a fortiori*, the assignee of a portion of the renewal rights, e. g., the right to produce a derivative work, must also hold nothing. Therefore, if the author dies before the renewal period, then the assignee may continue to use the original work only if the author’s successor transfers the renewal rights to the assignee. This is the rule adopted by the Court of Appeals below and advocated by the Register of Copyrights. Application of this rule to this case should end the inquiry. Woolrich died before the commencement of the renewal period in the story, and, therefore, petitioners hold only an unfulfilled expectancy. Petitioners have been “deprived of nothing. Like all purchasers of contingent interests, [they took] subject to the possibility that the contingency may not occur.”

B

The reason that our inquiry does not end here, and that we granted certiorari, is that the Court of Appeals for the Second Circuit reached a contrary result in *Rohauer v. Killiam Shows, Inc.* Petitioners' theory is drawn largely from *Rohauer*. The Court of Appeals in *Rohauer* attempted to craft a "proper reconciliation" between the owner of the pre-existing work, who held the right to the work pursuant to *Miller Music*, and the owner of the derivative work, who had a great deal to lose if the work could not be published or distributed. Addressing a case factually similar to this case, the court concluded that even if the death of the author caused the renewal rights in the pre-existing work to revert to the statutory successor, the owner of the derivative work could continue to exploit that work. The court reasoned that the 1976 Act and the relevant precedents did not preclude such a result and that it was necessitated by a balancing of the equities:

[T]he equities lie preponderantly in favor of the proprietor of the derivative copy-right. In contrast to the situation where an assignee or licensee has done nothing more than print, publicize and distribute a copyrighted story or novel, a person who with the consent of the author has created an opera or a motion picture film will often have made contributions literary, musical and economic, as great as or greater than the original author. . . . [T]he purchaser of derivative rights has no truly effective way to protect himself against the eventuality of the author's death before the renewal period since there is no way of telling who will be the surviving widow, children or next of kin or the executor until that date arrives.

The Court of Appeals for the Second Circuit thereby shifted the focus from the right to use the pre-existing work in a derivative work to a right inhering in the created derivative work itself. By rendering the renewal right to use the original work irrelevant, the court created an exception to our ruling in *Miller Music* and, as petitioners concede, created an "intrusion" on the statutorily created rights of the owner of the pre-existing work in the renewal term.

Though petitioners do not, indeed could not, argue that its language expressly supports the theory they draw from *Rohauer*, they implicitly rely on §7 of the [1909] Act, . . . which states that "dramatizations . . . of copyrighted works when produced with the consent of the proprietor of the copyright in such works . . . shall be regarded as new works subject to copyright under the provisions of this title." Petitioners maintain that the creation of the "new," i.e., derivative, work extinguishes any right the owner of rights in the pre-existing work might have had to sue for infringement that occurs during the renewal term.

We think, as stated in *Nimmer on Copyright*, that "[t]his conclusion is neither warranted by any express provision of the Copyright Act, nor by the rationale as to the scope of protection achieved in a derivative work. It is moreover contrary to the axiomatic copyright principle that a person may exploit only such copyrighted literary material as he either owns or is licensed to use." The aspects of a derivative work added by the derivative author are that author's property, but the element drawn from the pre-existing work remains on grant from the owner of the pre-existing work. So long as the pre-existing work remains out of the public domain, its use is infringing if one who employs the work does not have a valid license or assignment for use of the pre-existing work. It is irrelevant whether the pre-existing work is inseparably intertwined with the derivative work. Indeed, the plain language of § 7 supports the view that the full force of

the copyright in the pre-existing work is preserved despite incorporation into the derivative work. This well-settled rule also was made explicit in the 1976 Act:

The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the pre-existing material.

Properly conceding there is no explicit support for their theory in the 1909 Act, its legislative history, or the case law, petitioners contend, as did the court in *Rohauer*, that the termination provisions of the 1976 Act, while not controlling, support their theory of the case. For works existing in their original or renewal terms as of January 1, 1978, the 1976 Act added 19 years to the 1909 Act's provision of 28 years of initial copyright protection and 28 years of renewal protection. See 17 U.S.C. §§ 304(a) and (b). For those works, the author has the power to terminate the grant of rights at the end of the renewal term and, therefore, to gain the benefit of that additional 19 years of protection. See 17 U.S.C. §304(c). In effect, the 1976 Act provides a third opportunity for the author to benefit from a work in its original or renewal term as of January 1, 1978. Congress, however, created one exception to the author's right to terminate: The author may not, at the end of the renewal term, terminate the right to use a derivative work for which the owner of the derivative work has held valid rights in the original and renewal terms. See § 304(c)(6)(A). The author, however, may terminate the right to create new derivative works. For example, if the petitioners held a valid copyright in the story throughout the original and renewal terms, and the renewal term in "Rear Window" were about to expire, petitioners could continue to distribute the motion picture even if respondent terminated the grant of rights, but could not create a new motion picture version of the story. Both the court in *Rohauer* and petitioners infer from this exception to the right to terminate an intent by Congress to prevent authors of pre-existing works from blocking distribution of derivative works. In other words, because Congress decided not to permit authors to exercise a third opportunity to benefit from a work incorporated into a derivative work, the Act expresses a general policy of undermining the author's second opportunity. We disagree.

The process of compromise between competing special interests leading to the enactment of the 1976 Act undermines any such attempt to draw an overarching policy out of § 304(c)(6)(A), which only prevents termination with respect to works in their original or renewal copyright terms as of January 1, 1978, and only at the end of the renewal period. More specifically, § 304(c):

was part of a compromise package involving the controversial and intertwined issues of initial ownership, duration of copyright, and reversion of rights. The Register, convinced that the opposition . . . would scuttle the proposed legislation, drafted a number of alternative proposals. . . .

Finally, the Copyright Office succeeded in urging negotiations among representatives of authors, composers, book and music publishers, and motion picture studios that produced a compromise on the substance and language of several provisions. . . .

. . . "Because the controversy surrounding the provisions disappeared once the

parties reached a compromise, however, Congress gave the provisions little or no detailed consideration. . . . Thus, there is no evidence whatsoever of what members of Congress believed the language to mean.” Litman, *Copyright, Compromise, and Legislative History*, 72 *Cornell L. Rev.* 857, 865–868 (1987).

In fact, if the 1976 Act’s termination provisions provide any guidance at all in this case, they tilt against petitioners’ theory. The plain language of the termination provision itself indicates that Congress assumed that the owner of the pre-existing work possessed the right to sue for infringement even after incorporation of the pre-existing work in the derivative work:

A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant. 17 U.S.C. §304(c)(6)(A)

Congress would not have stated explicitly in § 304(c)(6)(A) that, at the end of the renewal term, the owner of the rights in the pre-existing work may not terminate use rights in existing derivative works unless Congress had assumed that the owner continued to hold the right to sue for infringement even after incorporation of the pre-existing work into the derivative work.

Accordingly, we conclude that neither the 1909 Act nor the 1976 Act provides support for the theory set forth in *Rohauer*. And even if the theory found some support in the statute or the legislative history, the approach set forth in *Rohauer* is problematic. Petitioners characterize the result in *Rohauer* as a bright-line “rule.” The Court of Appeals in *Rohauer*, however, expressly implemented policy considerations as a means of reconciling what it viewed as the competing interests in that case. While the result in *Rohauer* might make some sense in some contexts, it makes no sense in others. In the case of a condensed book, for example, the contribution by the derivative author may be little, while the contribution by the original author is great. Yet, under the *Rohauer* “rule,” publication of the condensed book would not infringe the pre-existing work even though the derivative author has no license or valid grant of rights in the pre-existing work. Thus, even if the *Rohauer* “rule” made sense in terms of policy in that case, it makes little sense when it is applied across the derivative works spectrum. Indeed, in the view of the commentators, *Rohauer* did not announce a “rule,” but rather an “interest-balancing approach.”

Finally, petitioners urge us to consider the policies underlying the Copyright Act. They argue that the rule announced by the Court of Appeals will undermine one of the policies of the Act—the dissemination of creative works—by leading to many fewer works reaching the public. Amicus Columbia Pictures asserts that “[s]ome owners of underlying work renewal copyrights may refuse to negotiate, preferring instead to retire their copyrighted works, and all derivative works based thereon, from public use. Others may make demands—like respondent’s demand for 50% of petitioners’ future gross proceeds in excess of advertising expenses . . . —which are so exorbitant that a negotiated economic accommodation will be impossible.” These arguments are better addressed by Congress than the courts.

In any event, the complaint that the respondent’s monetary request in this

case is so high as to preclude agreement fails to acknowledge that an initially high asking price does not preclude bargaining. Presumably, respondent is asking for a share in the proceeds because he wants to profit from the distribution of the work, not because he seeks suppression of it.

Moreover, although dissemination of creative works is a goal of the Copyright Act, the Copyright Act creates a balance between the artist's right to control the work during the term of the copyright protection and the public's need for access to creative works. The copyright term is limited so that the public will not be permanently deprived of the fruits of an artist's labors. But nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright. In fact, this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work.

The limited monopoly granted to the artist is intended to provide the necessary bargaining capital to garner a fair price for the value of the works passing into public use. When an author produces a work which later commands a higher price in the market than the original bargain provided, the copyright statute is designed to provide the author the power to negotiate for the realized value of the work. That is how the separate renewal term was intended to operate. At heart, petitioners' true complaint is that they will have to pay more for the use of works they have employed in creating their own works. But such a result was contemplated by Congress and is consistent with the goals of the Copyright Act. . . .

C

. . . In this case, the grant of rights in the pre-existing work lapsed and, therefore, the derivative work owner's rights to use those portions of the pre-existing work incorporated into the derivative work expired. Thus, continued use would be infringing; whether the derivative work may continue to be published is a matter of remedy, an issue which is not before us. To say otherwise is to say that the derivative work nullifies the "force" of the copyright in the "matter employed." Whether or not we believe that this is good policy, this is the system Congress has provided, as evidenced by the language of the 1909 Act and the cases decided under the 1909 Act. Although the dissent's theory may have been a plausible option for a legislature to have chosen, Congress did not so provide.

III

. . . For the foregoing reasons, the judgment of the Court of Appeals is affirmed and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

JUSTICE WHITE (concurring in the judgment)

Although I am not convinced, as the Court seems to be, that the decision in *Miller Music Corp. v. Charles N. Daniels, Inc.* was required by the Copyright Act, neither am I convinced that it was an impermissible construction of the statute. And because *Miller Music*, in my view, requires the result reached by the Court in this case, I concur in the judgment of affirmance.

JUSTICE STEVENS with whom the CHIEF JUSTICE and JUSTICE SCALIA join (dissenting)

. . . The statutory background supports the conclusion that Congress intended the original author to be able to sell the right to make a derivative work that could be distributed for the full term of the derivative work's copyright protection. . . .

The legislative history confirms that the copyright in derivative works not only gives the second creative product the monopoly privileges of excluding others from the unconsented use of the new work, but also allows the creator to publish his or her own work product. The authority to produce the derivative work, which includes creative contributions by both the original author and the second artist, is dependent upon the consent of the proprietor of the underlying copyright. But once that consent has been obtained, and a derivative work has been created and copyrighted in accord with that consent, “a right of property spr[ings] into existence,” that Congress intended to protect. Publication of the derivative work does not “affect the force or validity” of the underlying copyright except to the extent that it gives effect to the consent of the original proprietor. That owner—and in this case, the owner of a renewal of the original copyright—retains full dominion and control over all other means of exploiting that work of art, including the right to authorize other derivative works. The original copyright may have relatively little value because the creative contribution of the second artist is far more significant than the original contribution, but that just means that the rewards for creativity are being fairly allocated between the two artists whose combined efforts produced the derivative work. . . .

The critical flaw in the Court’s analysis is its implicit endorsement of the Court of Appeals reasoning that:

If *Miller Music* makes assignment of the full renewal rights in the underlying copyright unenforceable when the author dies before effecting renewal of the copyright, then a fortiori, an assignment of part of the rights in the underlying work, the right to produce a movie version, must also be unenforceable if the author dies before effecting renewal of the underlying copyright.

That reasoning would be valid if the sole basis for the protection of the derivative work were the contractual assignment of copyright, but Woolrich did not just assign the rights to produce a movie version the way an author would assign the publisher rights to copy and vend his work. Rather, he expressed his consent to production of a derivative work under §7. The possession of a copyright on a properly created derivative work gives the proprietor rights superior to those of a mere licensee. . . .

I respectfully dissent.

NOTE

For a detailed analysis of the consequences of the decision in *Stewart v. Abend* see Lionel S. Sobel, “View from the ‘Rear Window’: A Practical Look at the Consequences of the Supreme Court’s decision in *Stewart vs. Abend*” in the 12 *Entertainment Law Reporter* (June 1990).

CONTRACT PERFORMANCE, EXPLOITATION OBLIGATIONS, AND LIMITATIONS ON EXPLOITATION

5.1 DELIVERY STANDARDS

In each of the entertainment industries, the applicable agreements will specify standards for acceptable performance on the part of the artist, the performer, the writer, or whoever else is furnishing services and/or materials to the company.

In the recording industry, for example, the agreement will customarily provide that master recordings must be “technically and commercially satisfactory for the manufacture and sale of phonograph records,” a phrase which means, first, that the recordings must comply with the audio standards established by the major U.S. record companies (an essentially objective standard), and, second, that the company must believe that the public will buy records manufactured from the masters, a far more subjective standard. In the literary publishing industry, a typical book contract requires that the manuscript be “satisfactory in form and content” to the publisher.

In the film and television industries, the company usually insists upon approvals over all key personnel (e.g., the line producer, director, screenwriter, principal cast members, director of photography, composer) as well as the budget and the script, approvals which are exercised at important points throughout the production and delivery process. The company will frequently require changes in content and/or personnel. Therefore, it is highly unusual to encounter a relationship such as that which director Woody Allen enjoyed with Orion Pictures for many years which Orion put up the funds for Allen’s pictures but reportedly had no input along the way and, when a picture was delivered, Orion had but two choices: to release the picture as delivered, or sell it back to Allen.

As a general rule, the degree of subjectivity with which delivery standards are

infused increases in more or less direct proportion to the relative level of investment. The greater the investment (relative to industry norms), the more subjective the company will be.

Interestingly enough, almost all the reported cases involving delivery standards have arisen in the book publishing industry. As the following cases demonstrate, this is not a completely subjective standard, although economic considerations may be taken into account, and the company must be wary lest it be held to have waived the benefit of a delivery standards clause.

**Random House, Inc. v. Gold, 464 F. Supp. 1306 (S.D.N.Y.) *aff'd. mem.*,
607 F.2d 998 (2d Cir. 1979)**

POLLACK, DISTRICT JUDGE

This is an action to recover sums paid to the defendant as advances under a contract for the publication of up to four books to be written by defendant. Defendant has counter-claimed, alleging a breach of the contract in bad faith. . . .

In 1970, Random House and Gold entered into an agreement . . . which called for the publication of four literary works to be written by Gold with an option to cancel the fourth book. The contract was drawn on a printed form customarily used for arrangements pertaining to a single book. The form was adapted by Random House to cover the proposed books involved herein.

Prior to the execution of the 1970 agreement, Random House had published several other works by Gold, including two books published pursuant to a 1965 contract. The latter two books were quite successful, and Gold received advances and royalties from them in excess of \$100,000.

The 1970 agreement provided for the payment of advances of \$150,000, payable to Gold in ten equal annual installments. The advances were against and on account of all moneys accruing to Gold under the agreement. The contract required Gold to submit manuscripts for the works "in content and form satisfactory to the publisher" and in accordance with a delivery schedule set forth therein.

The 1970 contract also provided that Gold had the right to terminate the agreement with respect to a fourth work if he had earned \$150,000 or more from the publication of works #1, 2 and 3. . . .

Gold wrote and delivered the first two works and Random House accepted and published them. In January 1973, Random House paid Gold the fourth installment of the agreed advances, making a total of \$60,000 thereon to that date. As of December 1973, Gold's royalties on the two published works totaled \$9,304.71.

On July, 30, 1973, James Brown, Gold's literary agent, delivered the manuscript of the third work, a novel entitled *Swiftie the Magician*. James Silberman, the editor-in-chief at Random House, read the manuscript and also asked another fiction editor, Joe Fox, to read it. Silberman also asked his staff to check on the financial results of the Gold contract. His secretary reported to him that Random House had paid a total of \$60,000 and that the two published books had earned a total of \$11,579.35, as of March 31, 1973.

Fox reported to Silberman on August 23, 1973. He admitted he was not a fan of Gold's work, and criticized the manuscript as shallow and badly designed. In considering whether Random House should agree to publish the book, Fox asked whether Random House was behind financially on the contract with Gold.

On September 11, 1973, Silberman sent some of Fox's comments to Gold, with

a covering letter stating that he was “uneasy” about the manuscript. Gold went to work on a revision of the manuscript.

On December 20, 1973, just ten days before another installment of the agreed advances would have fallen due and after being assured by Random House’s attorneys that in their opinion Gold would have to repay about \$50,000 if the contract were terminated, Silberman wrote to Brown, stating that the manuscript was unsatisfactory in form and content and that Random House was terminating the agreement pursuant to Paragraph 2 thereof. Silberman testified that he decided to reject the book after reading a second, revised manuscript. He did not give the second manuscript to Fox or to anyone else to read. He could not remember exactly why he thought that the work was not a good book, and he did not keep a written memorandum of his criticisms, but said that they were the same as those in the Fox memo. Silberman admitted that he was conscious of the financial circumstances of the Gold contract at the time he decided to reject the book.

On January 2, 1974, Silberman and Brown spoke over the telephone about the third work by Gold. Silberman offered to renegotiate the terms of the Gold contract, and told Brown that the manuscript for the third work would be acceptable to Random House on different terms.

After the rejection by Random House, Brown offered the Gold manuscript for *Swiftie the Magician* to McGraw-Hill, which accepted the work for publication and paid Gold an advance of \$10,000. . . .

Random House now seeks to recover from Gold the amount of all the advances paid to Gold in excess of the royalties accrued with respect to the two published works, or approximately \$50,000. It contends that the sum represents an “unearned” advance which Gold agreed to repay in the event the contract was terminated.

Gold denies that he is obligated to repay all the advances he had received, viz., the \$60,000 (less accrued royalties) and maintains that he is entitled to the \$90,000 balance of the agreed advances because Random House breached the agreement in bad faith. Gold argues that he is at least entitled to an additional \$15,000 for that part of the agreed advances attributable to the two works accepted and published by Random House. . . .

Gold contends that Random House acted in bad faith when it rejected the *Swiftie* manuscript because it gave undue and improper weight to financial considerations in the making of that decision and to escaping from the remaining financial obligations if it rejected the third work. Gold points to the plaintiff’s offer to accept and publish the third work on different terms. Gold has offered no authority, however, for the proposition that a publisher’s financial circumstances and the likelihood of a book’s commercial success must be excluded from the range of factors that may be weighed in the decision to accept or reject a manuscript offered for publication, and this Court declines to endorse such a view. The requirement that a manuscript be satisfactory to the publisher gives it the right to reject a work if it acts in good faith; the publisher is not bound to incur the significant costs of publication if it declines to accept the risk of financial loss. There has been no other suggestion that Random House’s view of the manuscript as unsatisfactory from its viewpoint was not held honestly and in good faith, and Gold’s claim of a breach of contract in bad faith has not been established by a preponderance of the credible evidence. . . .

Random House seeks to recover the entire amount of the advances paid to

Gold, less the sum of royalties accrued on the published works. Random House's claim for repayment, however, lacks any support in the express language of the agreement of the parties.

Paragraph "2" of the contract states that, "*as to any undelivered works,*" (emphasis added):

... the Author agrees to repay forthwith all unearned amounts which may have been advanced hereunder, and Publisher will not be liable for any further advance installments.

Similarly, with respect to repayment of moneys advanced on published works, paragraph "9" of the contract states in harmony with the foregoing quotation from paragraph "2" that:

Any such advance shall not be repayable, provided that the Author has delivered the manuscript in conformity with Paragraph 2 and is not otherwise in default under this agreement.

The quoted sentence from paragraph "9" refers to "*the* manuscript" rather than to *all four* manuscripts, and in the face of the express limitation on recovery of advances to "*any undelivered works,*" the manuscript referred to in the proviso of paragraph "9" must be interpreted to distinguish delivered from undelivered works. This is cogent evidence that paragraphs "9" and "2" must be interpreted as applying independently to each of the four contemplated manuscripts. Thus, since Gold delivered the first two manuscripts in conformity with paragraph "2," advances attributable to those manuscripts are not repayable.

The evidence as a whole makes clear that, in effect, the parties made four separable arrangements in the adapted printed form, one for each work.

The notion of the plaintiff that the contract which it drew (adapted) is to be read as providing for a forfeiture by the defendant of all the advances it had received over a four year period because the plaintiff decided not to publish the third work, does violence to the contract, common sense and industry practice. Plaintiff's vice-president and editor-in-chief, Mr. Silberman testified that where separate works have been contracted for, an allocation is to be made of advances to each of the several works involved and that such an arrangement is common in the publishing industry. Moreover, when used in such a contract "all moneys earned" applies to each of the several works separately. . . .

The defendant Gold received \$60,000 advanced against the possibility of four works. He failed to deliver the third manuscript in satisfactory form and the contract was terminated as to the third and fourth works. As to those "undelivered works," Gold must repay the portion of his advance attributable to them, or \$30,000, which was not earned by the timely delivery of a satisfactory manuscript. Gold's promise to repay advances did not extend to delivered, accepted and published works, however, and Gold may retain the \$30,000 attributable to the two published books. . . .

Random House contends that it was not obligated to continue to pay any part of the advances due in the years 1974 through 1979. This contention, however, is also without support in the terms of the contract.

The *only* circumstance in which Random House was permitted to suspend all

advance payments, notwithstanding its acceptance and publication of one or more of the four works was the disability of the author. Paragraph “9” states in part:

If the Author becomes physically or mentally incapacitated prior to delivery of *all the Works*, Publisher may discontinue payments of installments and will have no further obligation to make such payments for the duration of the disability. (Emphasis added.)

In this provision of paragraph “9,” the rights and obligations of the publisher are clearly expressed: it may suspend all advance payments even where, for example, a disability delays delivery of a fourth manuscript after three works have been delivered and published. In contrast, there is no similar provision in the contract allowing Random House to suspend *all* payments when the contract is terminated *in part* as to undelivered works.

Paragraph “2,” on which Random House relies, grants the publisher only partial relief from the continuing obligation to make advance payments. It provides:

If the Author fails to deliver any manuscript . . . , as to any undelivered works, . . . Publisher will not be liable for any further advance installments.

Conversely, as to delivered and published works, Random House remains liable for further advance installments after a partial termination of the contract.

Therefore, with respect to the six advances due for the years 1974 through 1979, Random House is not liable for those attributable to the two “undelivered works,” but Random House is liable for the portion of those installments attributable to the delivered and published books, or \$45,000. . . .

Accordingly, the further findings and conclusions of this Court are as follows:

(1) Random House rejected the manuscript for *Swiftie the Magician*, the 3rd work, as unsatisfactory in form and content in good faith, and was privileged to terminate the 1970 agreement as to the third and fourth works, the undelivered works.

(2) Random House is entitled to recover from Gold the advances paid as to the undelivered works, or \$30,000.

(3) Random House is *not* entitled to recover from Gold the advances paid as to the two published books.

(4) Gold is *not* entitled to recover from Random House the unpaid advances attributable to the undelivered works.

(5) Gold is entitled to recover from Random House the unpaid advances attributable to the two published books, or \$45,000.

(6) Therefore, Gold is entitled to recover from Random House the net amount of \$15,000, plus interest and costs, and the Clerk is directed to enter judgment accordingly. . . .

**Harcourt Brace Jovanovich, Inc. v. Goldwater, 532 F. Supp. 619
(S.D.N.Y. 1982)**

GRIESA, JUDGE

. . . In early 1977 a proposal was submitted to Harcourt Brace Jovanovich, which I will refer to hereafter as HBJ, for the publication of the memoirs of Barry Goldwater.

The proposal was to have Stephen Shadegg act as the actual writer, working closely with Goldwater who was to provide the material and work and comment on the substance of what was presented.

Shadegg had previously had a long relationship with a literary agent by the name of Oscar Collier and he relied on Collier to market this proposal. Oscar Collier was associated as a literary agent with his daughter, Lisa Collier.

The Collier firm submitted the proposal to certain publishers, including HBJ, in early 1977. An editor at HBJ by the name of Carol Hill received the proposal. She talked about it to her editor-in-chief, Daniel Okrent. There was a meeting involving Hill, Okrent and the Colliers. The HBJ people were very enthusiastic and quickly agreed to publish the Goldwater memoirs on the basis of the proposal which had been submitted.

There is testimony demonstrating that although the HBJ people were enthusiastic about having the Goldwater memoirs, they had reservations about the writer Shadegg. There is a dispute as to whether they communicated these reservations to the Colliers. Whether they did or did not communicate the reservations is unimportant. But it is important to note that the HBJ people did have reservations and would have preferred another writer.

However, it is also to be noted that the Colliers furnished the HBJ people with four books previously written by Shadegg, a writer of long experience, who had engaged in journalistic writing as well as having written books, political biographies and so forth. The HBJ people were fully on notice as to exactly the degree of talent possessed by Shadegg.

There was a meeting in Washington, D.C., the main purpose of which was to meet Senator Goldwater. The contract was then signed January 26, 1977. It names Stephen Shadegg and Barry Goldwater as the authors and HBJ as the publisher.

The contract contains . . . certain paragraphs referring to the concept of the manuscript being "satisfactory to the publisher in form and content," particularly paragraph 2 which states as follows: "The author will deliver to the publisher on or before October 1, 1978, one copy of the manuscript of the work as finally revised by the author and satisfactory to the publisher in form and content."

The agreement provided for an advance totaling \$200,000, a remarkably high advance. \$65,000 was to be paid at the time of contract signing. Another \$75,000 was due on delivery and acceptance of the completed manuscript. The balance of \$60,000 was due on publication.

There was an exchange of letters in February 1977 between Hill and Goldwater in which Hill in effect offered to do a vigorous job of editing and Goldwater made it clear that he welcomed such editing. He stated in his letter of February 15, 1977 that Hill should not hesitate to criticize or make suggestions, even though he might be a little bullheaded here and there.

The project began between Shadegg and Goldwater. One of the things which was a feature of these memoirs was that Goldwater had over the years collected what he called the Alpha File. It consisted of memos and notes of conversations he had with other political and governmental leaders in the United States and he had dictated these notes and memos and prepared them at the time of various meetings and events.

These items had been collected in the Alpha File and one of the ideas of the memoirs was to publish materials of substance, anecdotes and so forth, from the Alpha File, to the extent they did not involve purely personal information or the

normal kind of information which sometimes is held back until the death of certain living people in order not to hurt them.

In any event, materials from the Alpha File were turned over to Shadegg and other materials were given to Shadegg. Goldwater commenced consulting with Shadegg and Shadegg set to work writing.

This process continued over the period of time involved in the lawsuit. Shadegg would write a section and submit it to Goldwater; Goldwater would comment, offer criticisms, provide additional material, and so forth.

On June 22, 1977, Shadegg wrote a letter to Hill enclosing a draft of seven chapters, approximately 30,000 words. At the same time Shadegg sent Oscar Collier the same draft material. The letter to Hill concluded with the following paragraph: "We would be most interested in having your comments and your suggestions. One of the problems we face is how much to put in and how much to leave out. The available material is almost overwhelming. Your objective viewpoint will be extremely helpful."

Hill did not communicate with either Shadegg or Goldwater in response to the receipt of this draft material. This caused understandable puzzlement on the part of Shadegg and Goldwater. They were eager to have her reaction and they did not have it.

Goldwater has made it clear in his testimony in the case that he expects and needs editorial work on the part of a publisher. He has published a number of books and feels the need of editorial work. He expected it here and he was particularly puzzled that none was forthcoming.

Goldwater relied on Shadegg for the principal communications with either the publisher or the agent and, pursuant to this, Shadegg made inquiries of Oscar Collier as to what was going on. Shadegg has testified that he placed one telephone call to Hill at about this time which was not returned. He candidly admitted at trial that he did not act more persistently in going to Hill directly because he was angry and hurt at the lack of what he considered a normal response.

In any event, in September of 1977, there was a discussion between Hill and Oscar Collier. Hill gave a general unfavorable comment about the seven-chapter draft, criticizing the tone, the lack of drama and what she considered flat writing. . . .

Even Hill's comments to Collier did not involve normal, detailed editorial work. They did not convey specific comments as to what should be cut or what should be added or what was unclear or any of the other things that one would expect in editorial work.

Consequently, in connection with the first seven chapters, it is clear that Hill did not perform any editorial work, either directly with the authors or indirectly through Collier.

The evidence indicates strongly that Hill was considering, and to some degree pursuing, the idea of replacing Shadegg with another writer.

In late September 1977, an item appeared in the Washington Post indicating that Goldwater was looking for a ghost writer. Goldwater and Shadegg heard about this. They inquired and were told by Hill that there was nothing to it. Hill wrote them a letter of reassurance which indicated that she was in fact enthusiastic about the book and expected that it would be an important one.

Thus, in her only direct contact with the authors at this juncture, Hill was not

only withholding her negative views of the draft, she was indicating support and enthusiasm.

Behind the scenes, there were certain maneuvers going on about the possibility of getting a new writer. Apparently there was talk at HBJ on this subject, and the desire for a possible new writer was known. This resulted in some communications with a literary agent about a possible writer by the name of Clay Blair. Hill went so far as to write the agent to try to see if Clay Blair would be available. Hill did not expressly mention the Goldwater project. She spoke in veiled terms, at least to the outsiders. But the point is that a new writer for the Goldwater book was definitely on her mind. . . .

As I have already described, Oscar Collier had received from Hill some general negative comments, which he conveyed to Shadegg and which were in turn conveyed to Goldwater.

There is a letter dated November 14, 1977 to Hill from Lisa Collier indicating that comments had been passed on and that work was going forward.

The intention of Shadegg and Goldwater and their agents was to keep going ahead with the writing in the hopes that whatever problems there were would work out with the further production of manuscript. Obviously, the authors had an obligation under the contract to write and they continued to fulfill that obligation.

In the absence of any editorial work forthcoming from Hill, Shadegg solicited comments from Oscar Collier, who made detailed suggestions on draft material. These comments were not the substitute of editorial work from the publisher. They tended to deal with rather trivial points about precise phrasing and so forth. But at least Shadegg was soliciting what assistance he could from the agent.

On July 13, 1978, 24 chapters were sent to Hill. These were sent by Goldwater. The idea had been adopted that if Goldwater himself submitted the material there might be a better chance of getting some editorial work from Hill. Also it was hoped that the production of a substantial part of the book would encourage some progress with the publisher.

The Goldwater letter of July 13, 1978 concludes with the following:

If you have any suggestions or would like to make some we could arrange to meet in Arizona at your convenience, in Washington or even New York. Let me know your honest opinion of what has been done so far and let me have any suggestions as soon as possible that might be incorporated in further writing.

The letter was not responded to. Hill made no attempt to communicate with Shadegg or Goldwater in order to offer the kind of opinions, suggestions, or comments which had been solicited in the Goldwater letter.

Hill has testified that she felt that the materials submitted in the 24-chapter package were poor and she was very concerned about whether the book could be successfully marketed. She asked two other editors at HBJ to read the materials. The other two editors were also negative about the contents of the 24-chapter package.

However, as I have said, there was no attempt to communicate with the authors and go over the matter in detail and see what, if anything, could be done to remedy the perceived difficulties.

Hill's communications again were with the agents, particularly with Oscar Collier. She conveyed her negative impression of the 24 chapters in a general way

and, at this time, expressly suggested that another writer be brought in. This suggestion was rejected by Oscar Collier.

At this time Hill indicated to Oscar Collier that HBJ would probably not publish the book and would probably reject the manuscript.

Oscar Collier and Hill discussed seeking another publisher. It was indicated to Collier that he was free to do this and Collier, in order to cover the contingency he was faced with, and in order to ensure publication of the book, commenced inquiries about the possibility of another publisher.

However, Shadegg and Goldwater kept on working on the book to finish it and the intention still was to submit the final manuscript to HBJ pursuant to the existing contract.

It should be noted that on August 31, 1978, Hill sent a memo to the head of the firm, Mr. Jovanovich, which stated, among other things, "that the original idea was to have Taylor Branch rewrite the manuscript when it was delivered." Taylor Branch was a writer who had been favored by the HBJ people for this project if they could have chosen the writer.

The memo has significance, in indicating that there was an intention to refrain from doing editorial work with Shadegg in the hopes that another writer could come in and do the job.

On September 29, 1978, the full manuscript was submitted to HBJ. It contained revisions of materials earlier submitted and certain additional chapters. The full manuscript was submitted with a letter from Oscar Collier which attempted to explain what Collier felt were the merits of the manuscript.

There was further review by Hill and certain of her colleagues at HBJ, and submission to a freelance manuscript reader. All took a very negative view of the manuscript. However, one suggestion by an associate editor was that the manuscript be reworked and that the authors be bargained down to a lower advance.

On August 31, 1978, HBJ wrote Oscar Collier returning the manuscript, stating that it was unacceptable, and demanding the return of the \$65,000 advance.

Prior to this time neither Hill nor any other editor at HBJ had communicated directly with Shadegg or Goldwater regarding the manuscript material. No one at that firm attempted to do so. There was never any detailed comment about what should be added, what should be deleted, what was unclear, or about any other specific matters in the manuscript. There was no such comment made either directly to Shadegg or Goldwater, or indirectly through the agent, Collier.

Following the rejection of the manuscript by HBJ, there were discussions by Collier with a few other publishers. The result was that the book was bought by William Morrow & Company who agreed to pay an advance of \$80,000. The same manuscript which had been rejected by HBJ was the one submitted to Morrow.

An experienced editor at Morrow by the name of Howard Cady has testified that he found the manuscript fascinating. He saw problems with it but felt that it could yield a best-selling book.

Prior to entering into any agreement with Shadegg and Goldwater, Cady went to see Shadegg in Phoenix, Arizona, where Shadegg lived to see whether he could work with Shadegg. This was in January 1979.

Cady found Shadegg thoroughly professional and cooperative. Cady had certain comments that were discussed with Shadegg at that time, and the two developed an immediate working relationship.

Over the next few weeks, after Morrow had bought the rights to the book,

Cady sent off to Shadegg in Phoenix communications with detailed comments about items to cut, questions to be answered and so forth. In other words, Cady was engaging in the normal editorial activity. . . .

The book was ready for galley proofs in a relatively short time. It was published in the fall of 1979 by Morrow under the title "With No Apologies" and it became a best-seller.

Cady has testified that the process he went through with Shadegg was a normal editorial process. There were substantial cuts of superfluous material, which he has testified is not unusual in work on a manuscript of a book being prepared under contract. The cuts were made leaving what Cady felt was valuable narrative and commentary material.

As far as additions to the manuscript which had been submitted to Cady, he said that there was less than 1 percent of the material in the present book which was added pursuant to his requests and questions. Again Cady said this involved normal editorial effort.

We come to the conclusions of law to be drawn. It is true that under the contract which was in force here between HBJ and the authors, the publisher has a very considerable discretion as to whether to refuse a manuscript on the ground that it is unsatisfactory to the publisher in form and content.

It cannot be, however, that the publisher has absolutely unfettered license to act or not to act in any way it wishes and to accept or reject a book for any reason whatever. If this were the case, the publisher could simply make a contract and arbitrarily change its mind and that would be an illusory contract. It is no small thing for an author to enter into a contract with a publisher and be locked in with that publisher and prevented from marketing the book elsewhere.

It is clear, both as a matter of law and from the testimony in this case, that there is an implied obligation in a contract of this kind for the publisher to engage in appropriate editorial work with the author of a book. Both plaintiff's and defendants' witnesses testified to this effect, based on the custom of the trade.

It is clear that an author who is commissioned to do a work under a contract such as this generally needs editing to produce a successful book. There has been testimony by Goldwater, as I have mentioned, to the effect that he feels the need of editing work and expected it here. The letters from both Shadegg and Goldwater to the publisher indicated their desire for editorial work on the part of the publisher.

In a general way, it is clear that the editorial work which is required must consist of some reasonable degree of communication with the authors, an interchange with the authors about the specifics of what the publisher desires; about what specific faults are found; what items should be omitted or eliminated; what items should be added; what organizational defects exist, and so forth. If faults are found in the writing style, it seems elementary that there should be discussion and illustrations of what those defects of style are. All of this is necessary in order to allow the author the reasonable opportunity to perform to the satisfaction of the publisher.

If this editorial work is not done by the publisher, the result is that the author is misled and, in fact, is virtually prevented from performing under the contract.

There is no occasion in this decision to determine the full extent or the full definition of the editorial work which is required of a publisher under the contract. Here there was no editorial work. I emphasize, no editorial work. There was nothing approaching any sensible editorial activity on the part of the pub-

lisher. There were no comments of a detailed nature designed to give the authors an opportunity to remedy defects, even though such comments were specifically invited and requested. . . .

As far as any qualms about having Shadegg as writer, it should be emphasized that the contract was with Shadegg as well as with Goldwater. The contract was not with Goldwater alone. And, as I have already indicated, the publisher entered into this contract with a full opportunity to determine the exact abilities and talents of Shadegg.

In a given situation it could be that after a contract is entered into of the kind we have here, and after draft material is submitted, the material is so hopeless that editorial work might be fruitless. It is difficult to imagine such a situation occurring but I suppose it is conceivable. But this was far from the case here.

I note that the publisher claims that there were no revelations of fact, no “revelatory material” as the term has been used. It is difficult to even comprehend that claim. The book as it was published is full of facts. It is full of conversations with illustrious personages. It is full of comments and judgments in detail about presidents and other public figures, presidential administrations and so forth. It is simply not true that the book had no factual material in it of a valuable nature.

It is quite clear that the bulk of the manuscript which was submitted to HBJ must have contained valuable and interesting factual material. This is not the case of a manuscript of no merit which ended up unpublished or was published in a book of clearly low-grade quality.

A distinguished editor, Howard Cady, found the manuscript fascinating. He edited the manuscript in the normal way and produced a successful book.

Consequently, I conclude that HBJ breached its contract with Shadegg and Goldwater by wilfully failing to engage in any rudimentary editorial work or effort. Consequently, HBJ cannot rely on the concept that the manuscript was unsatisfactory in form and content and can be rejected. HBJ had no right under its contract to reject that manuscript.

I have examined the legal authorities cited by the parties. No case directly in point has been referred to. I would note particularly that the case most heavily relied upon by HBJ, *Random House, Inc. v. Gold*, 464 F. Supp. 1306 (S.D.N.Y.), *aff'd mem.*, 607 F.2d 998 (2d Cir. 1979), holds that the type of contract involved in the present case requires the publisher to act in good faith, and notes the obvious point that, allowing unfettered license to publishers to reject a manuscript submitted under contract would permit “overreaching by publishers attempting to extricate themselves from bad deals.” 464 F. Supp. at 1308 n.1. In the present case, for the reasons already stated, it must be concluded that HBJ did not act in good faith.

This concludes my findings on the issues I have set out to deal with.

Doubleday & Company, Inc. v. Curtis, 763 F.2d 495 (2d Cir.), *cert. denied*, 474 U.S. 912 (1985)

KAUFMAN, CIRCUIT JUDGE

Mindful of the limited function of the judiciary in the private contractual realm, and aware of the dangers arising from judicial interference with the editorial process, we are today required to interpret an agreement entered into by an author and his publisher.

This dispute arose when, pursuant to the terms of a standard publishing agreement, Doubleday & Co. rejected as unsatisfactory a manuscript submitted by Tony Curtis. Each party then sued for breach of contract; Doubleday brought an action for recovery of the advance it remitted Curtis, and Curtis counterclaimed for anticipated earnings.

After a nonjury trial, the district court dismissed both actions. Judge Sweet rejected Curtis's claim, finding that Doubleday's unfavorable evaluation of the manuscript had been made in good faith and, assuming the publisher had a duty under the contract to provide editorial assistance to Curtis, this obligation had been fulfilled. Doubleday's complaint was dismissed on the basis that the company had waived its right to demand return of its advance. For the reasons set forth below, we affirm the dismissal of Curtis's counterclaims, but reverse the dismissal of Doubleday's claim. . . .

In the early 1970s, Tony Curtis, a respected dramatic and comedic actor, sought to enrich his career by becoming a novelist. He prepared a manuscript—later titled *Kid Andrew Cody and Julie Sparrow* (“Kid Cody”)—and enlisted the aid of Irving Paul (“Swifty”) Lazar, a well-known literary agent. Doubleday & Co., the venerable New York publishing house, foresaw within Curtis the potential for great commercial success and entered into a two-book contract with him in the winter of 1976.

As part of their arrangement, Doubleday promised to pay Curtis royalties on hardcover sales, and a share of the proceeds from the sale of subsidiary rights (e.g., paperback rights), provided Curtis could deliver—within a specified period of time—final manuscripts, “satisfactory to Publisher in content and form.” The agreement was a standard industry form, and did not elaborate on the meaning of the penultimate condition—“satisfactory to Publisher in content and form.”

Amid much fanfare, *Kid Cody* was accepted for publication. The final draft was generally acknowledged to have been a joint effort of Curtis and Larry Jordan, a Doubleday editor. Through a series of face-to-face meetings in New York, the experienced Jordan was able to assist the novice Curtis in the successful completion of his first novel.

Inspired by Curtis's literary debut and somewhat intrigued by an eight-page outline for his next novel, Doubleday agreed to renegotiate the contract governing publication of the second book. On September 7, 1977, the parties executed the document that spawned this litigation. Curtis was to receive one hundred thousand dollars as an advance to be charged against future royalties. One-half of the advance was paid upon the signing of the contract, with the balance due on “acceptance of complete satisfactory manuscript.” In addition, Curtis was to receive fifty percent of any proceeds Doubleday might earn from the sale of reprint rights. Doubleday's performance was again contingent upon Curtis's ability to produce a “satisfactory” manuscript by a date no later than October 1, 1978. This deadline, as well as the conditions relating to acceptable “form” and “content,” were expressly stated to be “of the essence of the Agreement.” The document further stated that failure to comply with the satisfaction clause granted the publisher the right to terminate the contract, and require Curtis to return any sums advanced. As with the *Kid Cody* contract, this agreement did not speak to the methods and standards by which the publisher would determine whether a manuscript was “satisfactory.” Indeed the contract omitted any reference to the plot, subject, title, length or tone of the proposed novel.

If Doubleday's arrangement with Curtis appeared to favor the publishing

house, the company's subsequent reprint agreement with New American Library ("NAL") epitomized the firm's bargaining acumen. NAL promised to pay Doubleday \$200,000 merely for the right to publish Curtis's second novel in paperback, in the event it was accepted for publication by Doubleday. NAL's position was thus wholly dependent upon Doubleday's opinion of the manuscript. Indeed, no matter how inferior or unsaleable the novel might prove to be, if Doubleday published the work before December 31, 1980, NAL was bound by the terms of the contract and Doubleday was ensured a handsome profit.

The great expectations that surrounded the project never materialized. It was not until April 1980 that Curtis delivered even a partial first draft of his would-be second novel, *Starstruck*, a rags-to-riches story of a lascivious Hollywood starlet. Doubleday appeared unperturbed, however, and blithely ignored the October 1978 deadline. Equally generous was NAL, which willingly extended its own deadline one year to December 31, 1981.

Those portions of *Starstruck* that Curtis had forwarded to Doubleday were routed from one editor's desk to another, finally coming to rest in August 1980 with Adrian Zackheim, then a stranger to Curtis. Zackheim's review of the first half of *Starstruck* was slow but painstakingly thorough. After four months of intermittent reading—totaling perhaps fifty hours—he sent Curtis a seven-page letter. In it, Zackheim criticized the numerous inconsistencies and inherent contradictions that pervaded the manuscript and exhorted Curtis to tighten the plot. Yet, sprinkled among this criticism was praise for the author's story-telling ability. To this end, Zackheim emphasized he was generally "charmed" with the "wonderful possibilities" of *Starstruck* and was not expecting substantial changes in "the basic outlines of the novel."

The following months, however, did not prove conducive to *Starstruck's* completion. The few telephonic and face-to-face conversations between Curtis and Zackheim contrasted dramatically with the considerable contact Curtis had maintained with Larry Jordan. To a large extent, the dearth of communication was a product of circumstance rather than neglect. Curtis was preoccupied with complex divorce proceedings, and his visits to New York became more and more infrequent. Zackheim, for his part, was willing to review changes and additions piecemeal, but Curtis eschewed this alternative.

The spring of 1981 elapsed without any significant progress being made on the manuscript. As a result, Doubleday executives became increasingly anxious that they would be unable to accept *Starstruck* for publication before the December 31, 1981 deadline with NAL. The prevailing sentiment at Doubleday was that it would prove fruitless to appeal to NAL for a further extension.

In early August, Curtis finally forwarded to Zackheim what he represented to be a completed draft of the book. Zackheim was appalled at the product, and reluctantly concluded that *Starstruck* was unpublishable. Not only had Curtis ignored suggestions involving the story's first half, but he had composed such an unexpectedly poor conclusion that *Starstruck* was transformed from a potential success into an almost certain debacle.

Without apprising Curtis of his impressions, Zackheim asked his supervisor at Doubleday, Elizabeth Drew, to read the revised manuscript. Drew's response, in the form of an intrafirm memorandum, clearly demonstrates the dilemma then confronting Doubleday. She acknowledged that rejecting *Starstruck* would require forfeiture of the lucrative reprint arrangement with NAL, but nonetheless recommended that Doubleday abandon the book. In her opinion, *Starstruck* was

“junk, pure and simple,” and could not be “edited into shape or even rewritten into shape.” To accept the manuscript for publication solely because of the NAL contract was, in Drew’s words, “not a way to sleep nights, at least not if one’s concerned with ethics.”

As a final means of salvaging the book and the NAL deal, Zackheim approached Lazar and suggested that Curtis submit the manuscript to a “novel doctor” in an attempt to put the shine back on the fallen *Starstruck*. When Lazar demurred, Doubleday finally admitted defeat. It cancelled the reprint deal with NAL, formally terminated the September 1977 agreement with Curtis and demanded repayment of the original \$50,000 advance. When Curtis refused, Doubleday commenced this litigation. . . .

Characterizing the litigation as a “dispute about creativity and the respective responsibilities of an author and his publisher,” the district court dismissed Doubleday’s complaint and Curtis’s litany of counterclaims. 599 F.Supp. 779 (S.D.N.Y. 1984). In considering whether to infer a duty to edit from a clause requiring delivery of a manuscript “satisfactory to the publisher,” the court acknowledged that New York’s appellate courts had yet to resolve this issue. Without deciding the issue, Judge Sweet concluded that, “[e]ven if a duty to provide editorial services is accepted as required under New York law, here, Doubleday performed it.” *Id.* at 784.

Turning to the question of bad faith, the trial judge deemed the testimony of Doubleday’s witnesses credible, and held that the decision to reject Curtis’s manuscript had been animated by a genuine belief that *Starstruck* was unpublishable. Curtis’s remaining counterclaims were summarily dismissed as contrary to the relevant provisions of the 1976 and 1977 contracts.

Finally, the court dismissed Doubleday’s claim seeking recovery of the \$50,000 advance. Judge Sweet held that Doubleday had waived the “time of the essence” clause by accepting Curtis’s manuscript nearly eighteen months after the original deadline had passed. Moreover, the court found that because Doubleday had led Curtis to believe that *Starstruck* would eventually be published, it had also waived its right to a return of the advance even if it found the manuscript unsatisfactory. . . .

We note at the outset that Curtis has never defended his August 1981 manuscript as a work of publishable quality. Rather, Curtis maintains that but for Doubleday’s inability and unwillingness to provide adequate editorial assistance, *Starstruck* would have met the “satisfactory to publisher” condition. Curtis concedes that his proposed interpretation is not supported by a literal reading of the 1977 agreement. On its face, the document is completely silent regarding any obligation on Doubleday’s part to ensure that Curtis’s rough drafts are transformed, through the company’s affirmative efforts, into a polished novel.

Our task, then, is to delineate the extent to which New York law requires us to infer such an obligation from the agreement. Because New York’s appellate courts have not yet addressed this question, we must attempt to divine the likely response of our state brethren.

The 1977 agreement expressly granted Doubleday the right to terminate the contract if it deemed Curtis’s manuscript to be unsatisfactory. In similar circumstances—where the satisfactory performance of one party is to be judged by another party—New York courts have required the party terminating the contract to act in good faith. . . .

This principle—that a contract containing a “satisfaction clause” may be ter-

minated only as a result of honest dissatisfaction—would seem especially appropriate in construing publishing agreements. To shield from scrutiny the already chimerical process of evaluating literary value would render the “satisfaction” clause an illusory promise, and place authors at the unbridled mercy of their editors.

A corollary of this duty to appraise a writing honestly is an obligation on the part of the publisher not to mislead an author deliberately regarding the work required for a given project. A willful failure to respond to a request for editorial comments on a preliminary draft may, in many instances, work no less a hardship than would an unjustifiable rejection of a final manuscript. A publisher’s duty to exercise good faith in its dealings toward an author exists at all stages of the creative process.

Although we hold that publishers must perform honestly, we decline to extend that requirement to include a duty to perform skillfully. The possibility that a publisher or an editor—either through inferior editing or inadvertence—may prejudice an author’s efforts is a risk attendant to the selection of a publishing house by a writer, and is properly borne by that party. To imply a duty to perform adequate editorial services in the absence of express contractual language would, in our view, represent an unwarranted intrusion into the editorial process. Moreover, we are hesitant to require triers of fact to explore the manifold intricacies of an editorial relationship. Such inquiries are appropriate only where contracts specifically allocate certain creative responsibilities to the publisher.

Accordingly, we hold that a publisher may, in its discretion, terminate a standard publishing contract, provided that the termination is made in good faith, and that the failure of an author to submit a satisfactory manuscript was not caused by the publisher’s bad faith. . . .

Evaluating the Doubleday-Curtis relationship in light of these principles, we are convinced that *Starstruck*’s failure was not attributable to any dishonesty, willful neglect or any other manifestations of bad faith on the part of Doubleday. The factual landscape illustrates the complete frustration experienced by Doubleday’s editors, who were forced to harmonize an inferior manuscript, a lucrative reprint agreement and a recalcitrant author. Zackheim sincerely endeavored to assist Curtis in the completion of his manuscript. Although Zackheim’s suggested revisions may have been offered somewhat belatedly, the evidence indicates that he extended numerous offers to discuss the novel with Curtis, as well as to review portions of the second draft. Indeed, it was Curtis who refused these renderings of assistance. That Zackheim’s editing was perhaps inadequate is beside the point, as is any comparison with Larry Jordan. Curtis neither alleged, nor does the record support a finding that Doubleday deliberately or even recklessly assigned *Starstruck* to an editor unfit or unsuited for the project.

Admittedly, the selection of an editor is a matter of paramount importance to a writer, but we note once again that the power to control this decision—like all aspects of the publication process—could have been reserved to Curtis in his contract.

Turning our attention to the actual termination of the contract, we believe the district court’s finding that Doubleday rejected *Starstruck* in good faith is amply supported by the record before us. Zackheim and Drew were in complete agreement that no amount of in-house editing could save the project. Moreover, the suggestion that Curtis consult a “novel doctor”—though perhaps somewhat hu-

miliating—appears to have been made sincerely, rather than as a strategem for avoiding the responsibilities attendant to a difficult editing job.

Curtis argues with some force that Doubleday terminated his contract in November 1981 primarily because of the impending NAL deadline. Although we agree the two events were not unconnected, we choose to characterize the relationship between them quite differently. Were it not for the extremely lucrative arrangement with NAL, it is likely that Doubleday would have abandoned *Starstruck* without hesitation, and perhaps at a much earlier date. Only the prospect of a commercially profitable reprint deal prevented Zackheim from rejecting the August 1981 manuscript immediately. Doubleday's decision to sacrifice financial reward for "ethics," as Zackheim's superior Drew framed the choice, can hardly be said to constitute an act of bad faith.

In light of all the circumstances, we agree with the district court's finding that Doubleday exercised good faith in its dealings with Curtis, and thus affirm the dismissal of Curtis's counterclaim. . . .

In dismissing Doubleday's complaint, which sought recovery of the \$50,000 advance paid to Curtis, the district court found that Doubleday had waived its right to demand return of the advance. Because the issue was not properly before the court, we conclude dismissal on that basis was improper.

Among the cardinal principles of our Anglo-American system of justice is the notion that the legal parameters of a given dispute are framed by the positions advanced by the adversaries, and may not be expanded *sua sponte* by the trial judge. The dismissal of Doubleday's claim based on an issue never pleaded by Curtis—or even implicitly raised at trial—is inconsistent with the due process concerns of adequate notice and an opportunity to be heard. Moreover, such a result runs counter to the spirit of fairness embodied in the Federal Rules of Civil Procedure. . . .

NOTES

1. In *Dell Publishing Co. v. Whedon*, 577 F. Supp. 1459 (S.D.N.Y. 1984), the publisher reviewed the author's outline for the book before contracting with the author; an advance was paid on the basis of the outline. Under these circumstances, the court held there was an implied duty for the publisher in good faith to offer suggestions to the author as to what needed to be revised to make the manuscript satisfactory. Editorial assistance had to be offered, and a manuscript could not be rejected without this degree of assistance. The publisher's failure to comply with these procedures prevented the publisher from recovering the advances made to the author.

2. In *William Morrow & Co. v. Davis*, 583 F. Supp. 578 (S.D.N.Y. 1984), a three-sided dispute erupted between the publisher (William Morrow & Co.), a celebrity (Bette Davis) who was to have her autobiography written, and an author (Mickey Herskowitz) who was to assist the celebrity in the writing. The court denied the publisher's motion for summary judgment, holding that triable issues of fact existed as to what is meant by contract language that requires the authors to deliver a manuscript satisfactory to plaintiff publisher in form and content.

The court held that each of the three principals in the case had set forth reasonable interpretations as to what was satisfactory in the context of the dealings among the three. Only a trial on the matter could determine what would constitute a satisfactory manuscript. These circumstances, the court held, raised an implied duty for the publisher in good faith to offer suggestions to the author as to what needed to be revised to make the manuscript satisfactory. Editorial assistance had to be offered, and a manuscript could not

be rejected without this degree of assistance. The publisher's failure to comply with these procedures prevented the publisher from recovering the advances made to the author.

3. In *Polygram Records, Inc. v. Buddy Buie Productions, Inc.*, 520 F. Supp. 248 (S.D.N.Y. 1981), a record company was held to have accepted an album on the date when it was physically delivered to the company by a recording artist, rather than a later date. Although the company's artists & repertoire representative testified that he had not in fact accepted the album, the company had proceeded to pay the balance of the advance applicable to the album (which was so noted on the check stub), which balance was due only upon delivery and acceptance of the album. Because "delivery" occurred on a date earlier than that asserted by the company, the company's attempt to exercise its option for a subsequent album was held to be untimely. Record companies have since adopted rather strict and specific rules governing "delivery," typically providing that the making of payments by the company does not constitute a waiver of the rules and that delivery is deemed to occur on the last day of the month during which all rules have been satisfied.

5.2 EXPLOITATION OBLIGATIONS

5.2.1 The Company as (Non)Fiduciary

Claims are made on a regular basis that companies are fiduciaries for authors, performers, songwriters and other talent. A "fiduciary" is "a person holding the character of a trustee, or a character analogous to that of a trustee, in respect to the trust and confidence involved in it and the scrupulous good faith and candor which it requires [, a] person having [the] duty, created by his undertaking, to act primarily for another's benefit in matters connected with such undertaking" (*Black's Law Dictionary* 625 [6th ed. 1990]). In addition to being required to perform to a higher standard than that applied to normal business dealings (good faith and fair dealing), a fiduciary may be exposed to a statute of limitations which is considerably longer than that applicable to normal business relationships.

As the following cases indicate, the company is not normally considered a fiduciary. Where rights are conveyed outright by an artist to a company subject to a duty on the part of the company to pay royalties, the relationship which is created is essentially that of debtor and creditor. However, as we see in the *Contemporary Mission* case and the *Van Valkenburgh* note in Section 5.2.2, below, the acceptance of special duties and/or certain types of particularly disloyal behavior may render the company liable for far more extensive damages than would otherwise be the case. See also *Art Buchwald v. Paramount Pictures Corp.* in Section 6.5.

Rodgers v. Roulette Records, Inc., 677 F. Supp. 731 (S.D.N.Y. 1988)

KRAM, DISTRICT JUDGE

[Rodgers sued defendants for failure to account and to pay royalties, on a number of theories, including, among others, breach of contract and breach of fiduciary duty. Defendants moved for summary judgment, claiming that the applicable statute of limitations had run, and that they were entitled to judgment as a matter of law on the other claims, including the claim of breach of fiduciary duty. The court granted defendants' motion on seven of eight claims, including the claim for breach of fiduciary duty.]

Factual Background

... The Contract [i.e., the applicable recording agreement, which was signed on April 23, 1957] provided that “Jimmy” Rodgers would record at least eight record sides for defendant, the compositions to be chosen by defendant. Plaintiff was restricted from making recordings for anyone else during the term of the agreement and for five years thereafter. Defendant was to pay plaintiff royalties in the amount of three percent (3%) of the “retail list price of double-faced records sold in the U.S. and paid for” ... [with royalties at half rate on foreign sales]. ... Defendant would charge against plaintiff’s account the entire cost of the recording sessions and any advances made by defendant to plaintiff. Statements were to be issued twice a year, on September 1st and March 1st. The Contract provided that all recordings belonged solely to defendant company and gave defendant the

right to assign, lend, lease or sell to any person, firm or company, matrice, stamper or master recordings from which records ... may be manufactured or sold and shall have the right to grant permission to any such person, firm or company ... to manufacture and sell records therefrom.

Plaintiff claims that either the Contract or industry custom requires defendants to pay royalties for sales made by licensees ... whereas defendant Levy [Morris Levy, president of Roulette—Ed.] asserts that Roulette had no contractual obligation to charge license fees. ... Roulette Records’ comptroller, Howard Fisher, acknowledges, however, that royalties were to be computed by applying the royalty rate to record sales or to license fees. ...

Plaintiff claims that he has made approximately 100 recordings for plaintiff, but has received insufficient or no royalties since the early sixties because defendants underreported domestic sales, failed to report foreign sales, failed to report sales by licensees, and ascribed too low a royalty rate to many of the songs ... Plaintiff also alleges that defendants failed to provide accounting statements as required under the Contract. ... [He] claims not to have received any accounting statements until 1981, yet it is apparent that plaintiff’s agents received at least some accounting reports since the time the Contract was signed. ... Plaintiff claims that these accounting statements misrepresented the royalties and sales of plaintiff’s songs.

Between 1957 and 1960, defendant Roulette Records advanced money to plaintiff and charged his account with costs for recording, totalling approximately \$26,000. Over the next twenty-five years, defendants credited plaintiff’s account with royalties in an amount approximating \$20,000. ... After commencement of the lawsuit, defendant Roulette Records acknowledged that it owed plaintiff an additional \$14,000 for royalties due for the early 1980’s. Plaintiff alleges that this amount is but a small fraction of the actual amount due from 1960 through the present. ...

Discussion

[The Court proceeded to decide, *inter alia*, (1) that the account between plaintiff and defendant was not “an open, mutual account,” so that the six-year statute of limitations would apply to each accounting in turn, instead of commencing to run on the entire history of the account only from the last accounting, (2) that plaintiff’s claim of conversion was barred by the three-year statute of limitations

applicable to such actions and, in addition, that plaintiff had failed to prove title to specific, identifiable monies, as opposed to a general claim for payment out of monies title to which belonged to defendants, and (3) that defendant was also entitled to summary judgment on plaintiff's fraud claim, applying New York's two-year fraud statute of limitations and holding that it applied to each successive statement, since plaintiff had (as the statute required) "knowledge of facts sufficient to suggest to a person of ordinary intelligence the probability that he has been defrauded".]

. . . Since plaintiff claims that the misrepresentation upon which the fraud claim was based was each of the allegedly false royalty statements, the alleged fraudulent dispossession of royalties occurred with the issuance of each allegedly false royalty statement. The critical question is thus when plaintiff discovered or reasonably should have discovered the fraud.

Plaintiff claims not to have discovered the fraud until shortly before he filed his lawsuit in 1984. . . . Plaintiff asserts that the royalty statements appeared accurate mathematically . . . and that nothing in the royalty statements indicated that defendants were defrauding plaintiff. . . . [Plaintiff stated that] "I did not have any expectation that monies would be forthcoming as I was not aware of any exploitation by Roulette or its licensees, if any, of my songs recorded for Roulette." . . . At the same time, however, plaintiff alleges in his complaint that his "songs sold millions of copies at around the time of their release and have continued to sell through and including the present time." . . . Moreover, plaintiff recorded over 100 songs for defendants, representing "a healthy portion of their better-selling records," [according to plaintiff]. . . . It is inconceivable that plaintiff or his agents did not notice that his songs were being released on records between 1960 and 1984.

. . . Plaintiff's agents should have known that royalties were understated given plaintiff's apparent popularity. At the very least plaintiff or his agents should have investigated the status of his royalties given the apparent discrepancy between the sale of millions of [copies of] his songs and the veritable trickle of royalties flowing back to plaintiff. Such an investigation would necessarily have to have gone beyond mere reliance on defendants' royalty statements. Reliance on statements suspected of being false cannot be the due diligence required of plaintiff.

Additionally, plaintiff is not entitled to recover under his fraud claims as a matter of law [because of the absence of] a false representation upon which plaintiff detrimentally relied. . . . Plaintiff alleges that, at the time of contracting, defendant promised to pay royalties and provide accountings while secretly never intending to do so. While this allegation would state a claim for fraud under New York law, see *Bower v. Weisman*, 650 F. Supp. 1415, 1422 (S.D.N.Y. 1980) (citing *Sabo v. Delman*, 3 N.Y.2d 155, 162, 164 N.Y.S.2d 714, 718, 143 N.E.2d 906, 909 (1957) (Note: The Court notes the existence of contrary authority in New York courts. See, e.g., *CB Western Financial v. Computer Consoles*, 122 A.D.2d 10, 504 N.Y.S.2d 179, 182 (2d Dept. 1986) (a "cause of action for fraud in inducing a contract cannot be based solely upon a failure to perform contractual promises of future acts.") See *Deerfield Communications Corp. Chesebrough-Ponds, Inc.*, 68 N.Y.2d 954, 510 N.Y.S.2d 88, 89, 502 N.E.2d 1003, 1004 (1986) (plaintiff did not produce evidence which suggested that defendant misrepresented an existing fact which induced the contract) plaintiff has not produced evidence, beyond defendants' failure to perform, to suggest that defendants never intended to perform their contractual obligations. *Soper v. Simmons Int'l, Ltd.*, 632 F. Supp. 244,

249 (S.D.N.Y. 1986) (proof of undisclosed intention not to perform contract must be based on sufficient evidence in addition to mere nonperformance) (cases cited therein). As such, defendants are entitled to summary judgment on the fraudulent inducement claim.

Finally, plaintiff's fraud claim falls for the simple reason that the fraud they [sic] allege is nothing more than the breach of contract. . . . [T]he alleged fraudulent misrepresentations were the allegedly false royalty statements. Any wrongdoing by defendants stems from a breach of their contractual obligations. For these reasons, defendants' motions [for summary judgment on the fraud claims] are granted. . . .

Defendants move for summary judgment on plaintiff's action for an accounting. In order to establish a right to an accounting, which is an action in equity, plaintiff must demonstrate the existence of a fiduciary relationship between himself and defendant, or the existence of a joint venture or other special circumstances warranting equitable relief. *Grossman v. Laurence Handprints-N.J., Inc.*, 90 A.D.2d 95, 455 N.Y.S.2d 852, 858 (2d Dept. 1982); see *Sanshoe Trading Corp. v. Mitsubishi Int'l Corp.*, 122 Misc.2d 585, 470 N.Y.S.2d 991, 1993 (Supr. Ct. 1984), *aff'd*, 104 A.D.2d 337, 479 N.Y.S.2d 149 (1st Dept. 1984). Plaintiff claims that a fiduciary relationship exists because defendants collected money on behalf of plaintiff in the form of royalties or license fees. This claim fails for a few reasons.

No fiduciary relationship exists in this case between Rodgers and defendants; instead, the parties enjoy a contractual relationship. In *Sanshoe*, the court held that a fiduciary relationship did not exist between a sales agent and the company for whom the agent made sales, even though the company collected money which it had an obligation to pass on to plaintiff. 470 N.Y.S.2d at 993. . . . See also *Van Valkenburgh, Nooger & Neville, Inc. v. Hayden Publishing Company*, 33 A.D.2d 766, 306 N.Y.S.2d 599 (1st Dept. 1969) (no fiduciary relationship where purely commercial relationship exists), *aff'd* 30 N.Y.2d 34, 330 N.Y.S.2d 329, 281 N.E.2d 142 (1972), *cert. denied* 409 U.S. 875, 93 S.Ct. 125, 34 L.Ed.2d 128 (1972).

Similarly in this case, the fact that Roulette or Levy collected royalties or fees which it [sic] had an obligation to pass on to plaintiff did not make them plaintiff's fiduciaries. In addition, never having received [anything specifically earmarked as] plaintiff's property . . . defendants could not have been acting as their fiduciary. Since defendants were not fiduciaries to plaintiff, an accounting is not available. . . .

Plaintiff claims that defendants breached a fiduciary duty by negotiating for unconscionably low royalty fees with defendants' licensees. Defendants are entitled to summary judgment for a number of reasons.

First, as stated above, there was no fiduciary relationship to be breached. Second, plaintiff could not identify any royalty or license fee that was unconscionably low. Third, plaintiff alleged, but did not establish, that defendants had a duty to negotiate royalty or license fees with third parties. Defendants claim that no such obligation existed. The record nowhere indicates an obligation for defendants to negotiate on plaintiff's behalf. Indeed, the nature of the alleged duty was simply that defendants had a duty to ensure that plaintiff received the ultimate yield due from the licensing arrangements. . . . At best, plaintiff had a contractual or implied contractual right to receive royalties for recordings which Roulette decided to license to third parties. Defendants' motions for summary judgment on this claim are thus granted.

Mellencamp v. Riva Music Ltd., 698 F. Supp. 1154 (S.D.N.Y. 1988)

CONBOY, DISTRICT JUDGE

Plaintiff John J. Mellencamp, professionally known as John Cougar Mellencamp, is a songwriter, performer, and recording artist who has enjoyed enormous success in recent years. Defendants (collectively “the Riva companies”) are affiliated corporations owned and/or controlled by William A. Gaff. On May 12, 1977, Mellencamp entered into a written publishing agreement with defendant G. H. Music, Ltd. Pursuant to the 1977 agreement, Mellencamp assigned to G. H. Music the worldwide copyrights in and to the compositions to be authored by him during the term of the agreement. The 1977 agreement was modified by a written agreement, dated February 28, 1979, and by letter agreement, dated February 21, 1980. On June 15, 1981, John Cougar, Inc. entered into a written publishing agreement with defendant Riva Music, Ltd. whereby John Cougar, Inc. assigned Mellencamp’s songwriting and composing services and copyrights to Riva. On June 1, 1983, Mellencamp entered into a third publishing agreement with defendant Riva Music, Inc. Finally, by written agreement dated July 26, 1985, among Riva Music, Inc., Riva Music, Ltd., G. H. Music, Ltd, Mellencamp, and John Cougar Inc., each of the prior publishing agreements was amended in certain respects. In exchange for the assignment of the copyrights, Mellencamp received a percentage of the royalties earned from the exploitation of his music.

By virtue of the publishing agreements, according to the complaint, the Riva companies became fiduciaries for Mellencamp’s interests. In his first and second claims, Mellencamp alleges that defendants breached their fiduciary duties by failing to actively promote his songs and to use their best efforts to obtain all the monies rightfully due him from third parties. In his third claim, Mellencamp contends that the Riva companies breached the various publishing agreements controlling their relationship by consistently underreporting royalties due him and by failing to timely render royalty statements and payments. In his fourth and final claim, Mellencamp contends that he entered into a binding agreement with the Riva companies pursuant to which the defendants agreed to release him from all obligations under the publishing contracts and to return all the rights to and in his musical compositions in exchange for \$3 million dollars. . . . [Since the Court granted summary judgment to the defendants with respect to Mellencamp’s fourth claim on the basis of straight contract and copyright analysis, the Court’s discussion of the fourth claim is omitted—Eds.]

Defendants now move pursuant to Rule 12(b) (6) to dismiss the complaint on the ground that it fails to state any valid claim for relief. Specifically, defendants contend (1) that the first two claims fail as a matter of law because no fiduciary duties are owed by a publisher to an author under a publishing agreement [and] (2) that the third claim fails to specify which of the publishing agreements were breached, who the parties to the agreements were, and which provisions of the agreements were breached, and also fails to include a necessary party. . . .

*Analysis**I. Fiduciary Duties*

Under New York law, the existence of fiduciary obligations in a particular relationship cannot be determined by recourse to fixed formulas or precedents:

Broadly stated, a fiduciary relationship is one founded upon trust or confidence reposed by one person in the integrity and fidelity of another. It is said that the relationship exists in all cases in which influence has been reposed and betrayed. The rule embraces both technical fiduciary relations and those informal relations which exist whenever one man trusts in, and relies upon, another (see *Mobil Oil Corp. v. Rubenfeld*, 72 Misc.2d 392, 399–400, 339 N.Y.S.2d 623, *aff'd*, 77 Misc.2d 962, 357 N.Y.S.2d 589, revs. on other grounds 48 A.D.2d 428, 370 N.Y.S.2d 943). Such a relationship might be found to exist, in appropriate circumstances between close friends (see *Cody v. Gallow*, 28 Misc.2d 373, 214 N.Y. S.2d 127) or even where confidence is based upon prior business dealings (see *Levine v. Chussid*, 31 Misc.2d 412, 221 N.Y.S.2d 311).

Penato v. George, 52 A.D.2d 939, 942, 383 N.Y.S.2d 900, 904–05 (2d Dep't 1976). Notwithstanding this broad rule, defendants, relying on *Van Valkenburgh, Nooger & Neville, Inc. v. Hayden Publishing Co.*, 30 N.Y.2d 34, 330 N.Y.S.2d 329, 281 N.E.2d 142 (1972), *cert. denied*, 409 U.S. 875, 93 S.Ct. 125, 34 L.Ed.2d 128 (1972), argue that the relationship between an author and a publisher can never be a fiduciary relationship. *Van Valkenburgh* does not support this proposition.

There, a publisher and an author entered into a written agreement which provided, *inter alia*, that the publisher was obligated to use its best efforts to promote the author's books. *Id.*, 30 N.Y.2d at 43, 330 N.Y.S.2d at 331, 281 N.E.2d at 144. The agreement also provided that the author would receive a 15% royalty on all books sold. *Id.* The trial court found that the publisher did not use its best efforts to promote the books, the publisher occupied a fiduciary relationship to the author, and the publisher failed to act in good faith in that relationship. *Id.* at 44, 330 N.Y.S.2d at 332, 281 N.E.2d at 144. On appeal, the Appellate Division determined that no fiduciary relationship existed between the parties. *Id.* Instead, the court concluded, the relationship between the parties was one of ordinary contract. *Id.* The court also concluded that the publisher did not breach its duty of good faith but found that the publisher did breach its contractual obligation to use its best efforts to promote the author's books. *Id.* The New York Court of Appeals affirmed, concluding that "it *could* be found, as a matter of law, *on the record*, that there was no fiduciary relationship." *Id.* at 46, 330 N.Y.S.2d at 334, 281 N.E.2d at 145 (emphasis added). See also *Lane v. Mercury Record Corp.*, 21 A.D.2d 602, 252 N.Y.S.2d 1011 (1st Dep't 1964) (a royalty or percentage arrangement would not in and of itself establish a fiduciary relationship), *aff'd*, 18 N.Y.2d 889, 276 N.Y.S.2d 626, 223 N.E.2d 35 (1966). The Court did not hold that fiduciary obligations could never arise in a relationship based at least in part on publishing agreements.

(1) The complaint as drafted, however, goes further than this, suggesting that fiduciary obligations attach to the publisher-author relationship as a matter of law and, consequently, that the Riva companies' alleged failure to meet their express or implied contract obligations amounts to a breach of trust. In addition, there is language in several older state cases, as well as in federal cases interpreting New York state law, that arguably supports the view that a publisher-author contract creates a "technical fiduciary relation." If these cases can be so interpreted, they are directly at odds with the greater weight of authority which teaches that the conventional publisher-author arrangement is not a per se fiduciary relationship. Commenting on the ambiguities in the caselaw, Judge Haight observed that "[t]he legal responsibilities attendant upon this status . . .

are far from clear.” *Warfield v. Jerry Vogel Music Co., Inc.*, 1978 Copyright L. Rep. (CCH) para. 25,005, at 15,033 (S.D.N.Y. Mar. 21, 1978). These cases warrant discussion.

(2) Under New York law, every contract includes an implied covenant of good faith and fair dealing which precludes a party from engaging in conduct that will deprive the other contracting party of his benefits under their agreement. *Filner v. Shapiro*, 633 F.2d 139, 143 (2d Cir.1980). A contract is also deemed to include any promise which a reasonable person in the position of the promisee would be justified in believing was included. *Rowe v. Great Atlantic & Pacific Tea Co., Inc.*, 46 N.Y.2d 62, 69, 412 N.Y.S.2d 827, 831, 385 N.E.2d 566, 570 (1978). When the essence of a contract is the assignment or grant of an exclusive license in exchange for a share of the assignee’s profits in exploiting the license, these principles imply an obligation on the part of the assignee to make reasonable efforts to exploit the license. *Havel v. Kelsey-Hayes*, 83 A.D.2d 380, 382, 445 N.Y.S.2d 333, 335 (4th Dep’t 1981). See also *Zilg v. Prentice-Hall, Inc.*, 717 F.2d 671 (2d Cir.1983) (promise of publisher to publish book which it has obtained exclusive rights to implies good faith effort to promote the book). The critical point here is that a publisher’s obligation to promote an author’s work is one founded in contract rather than on trust principles.

While it is true that several of the cases cited by plaintiff discuss certain “trust elements that are part of the relationship between a writer and a publisher,” *Nolan v. Sam Fox Publishing Company, Inc.*, 499 F.2d 1394, 1400 (2d Cir.1974), it is apparent that the courts were in fact discussing a publisher’s implied-in-law contract obligations or were relying on trust principles in situations where the publisher tolerated or participated in tortious conduct against the author. For example, in *Schisgall v. Fairchild Publications*, 207 Misc. 224, 137 N.Y.S.2d 312 (Sup. Ct. N.Y. County 1955), the plaintiff-author alleged that his publisher refused to fill existing orders for his book, withdrew his book from sale, and refused to transfer the rights to the book back to the author, all for “the single purpose to abort or destroy . . . the defendant’s interests.” *Id.* at 232, 137 N.Y.S.2d at 319. In determining whether the alleged conduct created tort liability in addition to liability in contract, the court observed that “the intentional infliction of injury without just cause is prima facie tortious.” *Id.* at 230, 137 N.Y.S.2d at 317.

As a preliminary matter, however, the court had to determine whether the plaintiff could be deemed to have suffered any injury in the absence of express contractual obligations or rights governing the complained of conduct. In response to defendant’s assertion that the plaintiff retained no protectible interest in his literary product because he assigned all his rights to the defendant, the court stated:

[A]s I read the contract, even though there be an absolute assignment, there was such an assignment on the basis of the business to be done—such a transfer of rights and property to the defendant as did not denude the plaintiffs of a certain right and interest, and that arrangement resulted in that kind of relationship that *fair dealing* was required between the parties. It is not the express contractual reservation of rights per se on which plaintiffs rely, but upon the defendant’s breach of the special relationship thus created—plus the defendant’s intentional purpose to destroy. It is not necessary to use the magic words of “fiduciary relationship,” or to hold that a “relationship of trust and confidence” was created by the contract, or to find that defendant became a “trustee” of the copyright for the benefit of the

plaintiffs (as well as of the defendant). As Chief Judge Cardozo put it in *Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 91, 118 N.E. 214: “The law has outgrown its primitive stage of formalism when the precise word was the sovereign talisman, and every slip was fatal. It takes a broader view today. A promise may be lacking and yet the whole writing may be ‘instinct with an obligation,’ imperfectly expressed.” Similarly, the special relationship here may not be specifically expressed, and yet the whole factual situation may be instinct with a duty which should be imposed by law upon the publisher.

The law implies a promise on the defendant’s part to endeavor to make the book and copyright productive, since that is the very purpose of the assignment of literary rights and the correlative obligation to pay royalties, In re Waterson, Berlin & Snyder Co. v. Irving Trust Co., 48 F.2d 704 [2nd Cir. 1981].

Id. at 230–31, 137 N.Y.S.2d at 317–18 (emphasis added). Despite the reference to “fiduciary relationship” and “relationship of trust,” it is clear, in context, that the court was talking about a publisher’s implied-in-law contract obligation to use its best efforts to promote an author’s work, where the publisher has exclusive rights in the work. The single case cited in the court’s discussion of the “special relationship” between author and publisher, *Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 91, 118 N.E. 214 (1917) (Cardozo, C.J.), is the seminal authority on an exclusive licensee’s implied promise to use reasonable efforts to generate profits from the license. The court’s reliance on contract principles is confirmed later in the opinion:

If the defendant acted merely as a contracting party (at legal liberty perhaps to breach its agreement on payment of damages), that is one thing. But if the defendant went further, and acted with intent to inflict injury beyond that contemplated as a result of the mere breach of contract, I would hold that the contract does not grant the defaulter immunity from tort liability. Even though the act would not be actionable in tort if the defendant “elected” to breach its contract in furtherance of its legitimate business interests, it is tortious (as well as a breach of contract) if there be no self-interest involved, but rather the sole purpose be that of injury to another.

Id., 207 Misc.2d at 232, 137 N.Y.S.2d at 319 (emphasis added). The holding of Schisgall is that a publisher who breaches his implied contract obligation to exploit an author’s work with no motive other than to injure the author, is liable for prima facie tort. See *Nifty Foods Corp. v. Great Atlantic & Pacific Tea Co.*, 614 F.2d 832, 838 n. 7 (2d Cir.1980) (“*Schisgall* . . . involved the deliberate and unjustified destruction of a property right entrusted under a contract”).

Relying on the two paragraphs from 207 Misc.2d at pages 230–31, 137 N.Y.S.2d at 317–18 of *Schisgall* quoted above, the court in *Manning v. Miller Music Corp.*, 174 F. Supp. 192, 195–96 (S.D.N.Y. 1959), characterized the relationship between publisher and author as one involving fiduciary obligations. But as in *Schisgall*, the court did not hold that the publisher’s breach of contract obligations gave rise to liability as a fiduciary, nor was such liability even at issue. The question in *Manning* was whether the plaintiffs, composers of a song who assigned their copyrights to a publisher, had standing to maintain a suit for infringement against a third party. *Id.* at 194. The court concluded that the “peculiar relationship between the author and his publisher,” *id.* at 195, gives the authors standing to bring suit against a third party infringer when the publisher fails to do so. “It is this fiduciary relationship imposing equitable obligations upon

the publisher beyond those ordinarily imposed by law upon those dealing fully at arms' length, which gives the plaintiffs standing to sue here." *Id.* at 196. Analogizing the situation to a stockholder's derivative action, *id.* at 196, the court reasoned that plaintiffs could maintain the infringement action as long as the publisher was joined as a nominal defendant. *Id.* Notably, the court concluded that it would be inappropriate to force plaintiffs to institute "a separate action in contract against the publisher" to achieve the same end. *Id.* at 197 (emphasis added). See also *Cortner v. Israel*, 732 F.2d 267, 271 (2d Cir.1984) (when a composer assigns a copyright title to a publisher in exchange for the payment of royalties, an equitable trust relationship is established between the two parties which gives the composer standing to sue for infringement of the copyright). In a similar vein, the court in *Nelson v. Mills*, 278 A.D. 311, 104 N.Y.S.2d 605 (1951), *aff'd*, 304 N.Y. 966, 110 N.E.2d 892 (1953), held that a publisher's actual promotion of a song which infringed the author's was a "breach of contract or trust." *Id.* at 312, 104 N.Y.S.2d at 606. But the court also asserted, echoing Schisgall, that "the defendant was not obligated to promote the sale of plaintiff's song." *Id.* at 312, 104 N.Y.S.2d at 607.

(3) To the extent the cases discussed above intended to posit a per se rule that a publisher with exclusive rights in a work is a fiduciary for the author's interests, they must be rejected as inconsistent with *Van Valkenburgh*. The better view, and the one consistent with *Van Valkenburgh*, is that the "trust elements" in a publisher-author relationship come into play when the publisher tolerates infringing conduct, *Manning*, *Cortner*, or participates in it, *Nelson v. Mills*. Ordinarily, however, the express and implied obligations assumed by a publisher in an exclusive licensing contract are not, as a matter of law, fiduciary duties. See *Sobol v. E. P. Dutton, Inc.*, 112 F.R.D. 99, 104 (S.D.N.Y. 1986) (Weinfeld, J.); *Ekern v. Sew/Fit Company, Inc.*, 622 F. Supp. 367, 373 (N.D.Ill. 1985) (citing *Van Valkenburgh*). Cf. *Beneficial Commercial Corp. v. Murray Glick Datsun*, 601 F. Supp. 770, 772 (S.D.N.Y. 1985) (absent assumption of control or responsibility and corresponding repose of trust, arm's length business transaction does not give rise to fiduciary relationship). Accordingly, since plaintiff's first two claims are predicated solely upon the professional relationship between the parties and do not plead any specific conduct or circumstances upon which trust elements are implicated, they are dismissed. In the unlikely event that plaintiff can repair his pleadings in this regard, he is given leave to replead within twenty days of the date of this order. . . .

NOTES

1. In *Waverly Productions, Inc. v. RKO General, Inc.*, 217 Cal.App. 2d 721, 22 Cal.Rptr. 73 (2d Dist. 1963), the court held that (except with respect to the duty to account for film rentals received) a film distributor was not a fiduciary with respect to the production company licensor.

2. Under Illinois law, "[a] fiduciary duty must be established by more than just a showing of a contractual relationship plus a subservient party's reliance on the trust placed in the other party." The determination is based on "(1) the degree of business experience between the parties, and (2) the extent to which the allegedly subservient party entrusts the handling of his business and financial affairs to the other party." In a case involving an oral license from the widow of rock legend Frank Zappa to a video distributor, the court found that the widow had business experience and that the licensee lacked "over-

whelming business influence over [Mrs.] Zappa in their relationship.” *Glovarama, Inc. v. Maljack Productions, Inc.*, 1998 WL 102742 (N.D. Ill. 1998).

5.2.2 The Obligation to Exploit

Having thus determined that the company does not normally occupy the role of a fiduciary toward the talent, we turn next to the determination of the scope of the company’s duty to exploit the results of the talent’s contribution. The normal rule in such situations is set forth in the *Wood* and *Zilg* cases; however, as we see in the notes on the *Contemporary Missions* and *Van Vallenburgh* cases which follow, the addition of specific exploitation commitments may give rise to potentially serious consequences in the event that the company fails to carry them out, and the company’s ability to exploit subsequently acquired competing properties may be limited by its contractual undertakings in an earlier agreement.

Wood v. Lucy, Lady Duff-Gordon, 222 N.Y. 88, 118 N.E. 214 (1917),
rearg denied 222 N.Y. 643 (1918)

CARDOZO, J.

[In a 5–2 decision, the Court of Appeals upheld the complaint against a demurrer.] The defendant styles herself as a “creator of fashions.” Her favor helps a sale. Manufacturers of dresses, millinery, and like articles are glad to pay for a certificate of her approval. The things which she designs, fabrics, parasols, and what not, have a new value in the public mind when issued in her name. She employed the plaintiff [pursuant to a written, signed agreement] to help her to turn this vogue into money. He was to have the exclusive right, subject always to her approval, to place her endorsements on the designs of others. He was also to have the exclusive right to place her own designs on sale, or to license others to market them. In return she was to have one-half of ‘all profits and revenues’ derived from any contracts he might make. . . . The plaintiff says that he kept the contract on his part, and that the defendant broke it. She placed her indorsement on fabrics, dresses, and millinery without his knowledge, and withheld the profits. He sues her for the damages, and the case comes here on demurrer.

. . . The defendant insists . . . that [the agreement] lacks the elements of a contract because the plaintiff does not bind himself to anything. It is true that he does not promise in so many words that he will use reasonable efforts to place the defendant’s endorsements and market her designs. We think, however, that such a promise is fairly to be implied. . . . A promise may be lacking, and yet the whole writing may be “instinct with an obligation,” imperfectly expressed (Scott, J., in *McCall Co. Wright*, 133 App. Div. 62, 117 N.Y. Supp. 775; *Moran v. Standard Oil Co.*, 211 N.Y. 187, 198, 105 N. E. 217). If that is so, there is a contract.

The implication of a promise here finds support in many circumstances. The defendant gave an exclusive privilege. She was to have no right for at least a year to place her own endorsements or market her own designs except through the agency of the plaintiff. The acceptance of the exclusive agency was an assumption of its duties. [Citations omitted.] We are not to suppose that one party was to be placed at the mercy of the other. [Citations omitted.] Many other terms of the agreement point the same way. We are told at the outset by way of recital that: “The said Otis F. Wood possesses a business organization adapted to the

placing of such endorsements as the said Lucy, Lady Duff-Gordon, has approved.”

The implication is that the plaintiff’s business organization will be used for the purpose for which it is adapted. But the terms of the defendant’s compensation are even more significant. Her sole compensation for the grant of an exclusive agency is to be one-half of all the profits resulting from the plaintiff’s efforts. Unless he gave his efforts, she could never get anything. Without an implied promise, the transaction cannot have such business “efficacy, as both parties must have intended that at all events it should have.” Bowen, L. J., in the *Moorcock*, 14 P. D. 64, 68. But the contract does not stop there. The plaintiff goes on to promise that he will account monthly for all moneys received by him and that he will take out all such patents and copyrights and trade-marks as may in his judgment be necessary to protect the rights and articles affected by the agreement. It is true, of course, as the Appellate Division has said, that if he was under no duty to try to market designs or to place certificates of indorsement, his promise to account for profits or take out copyrights would be valueless. But in determining the intention of the parties the promise has a value. It helps to enforce the conclusion that the plaintiff had some duties. His promise to pay the defendant one-half of the profits and revenues resulting from the exclusive agency and to render accounts monthly was a promise to use reasonable efforts to bring profits and revenues into existence. For this conclusion the authorities are ample. [Citations omitted.]

Zilg v. Prentice-Hall, Inc., 717 F.2d 671 (2d Cir. 1983), cert denied, 466 U.S. 938 (1984)

WINTER, CIRCUIT JUDGE

... Gerard Colby Zilg is the author of *DuPont: Behind the Nylon Curtain*, an historical account of the role of the DuPont family in American social, political and economic affairs. Early in 1972, after one partially successful and several unsuccessful efforts to find a publisher for his proposed book Zilg’s agent introduced him to Bram Cavin, a senior editor in P-H’s Trade Book Division. Cavin expressed interest in the book, and he and Zilg submitted a formal proposal to John Kirk, P-H’s Editor-in-Chief at that time. Kirk approved the proposal, which described the future book

as a thoroughly documented study of the major role the DuPont family has played in the development of modern America and its corporate and social institutions. After skimming lightly over the family’s origins in France and its development of its gunpowder business up to and through the Civil War, the book will concentrate on the period after that conflict right down to the present day. The story—essentially one of money and power—is going to be told in human terms and in the lives of the members of the family and their actions. The family will be looked upon as a unit in its relations to the outside world. But it will also be shown to be, as many families frequently are, one torn by feuds and struggles over the money and the power. . . .

Zilg submitted the first half of his completed manuscript to Cavin in November 1972, and the remainder a year later. Cavin authorized acceptance of the work on behalf of P-H apparently without the participation of Peter Grenquist, who had become president of P-H’s Trade Book Division sometime after execution

of the contract but before submission of the manuscript. P-H's legal division scrutinized the manuscript for libelous content and concluded that, if a libel action were brought, P-H "would ultimately prevail" because the subject matter of the work was constitutionally privileged and the plaintiffs would have to prove actual malice. The division's opinion noted, however, that litigation against the DuPonts would be very costly.

A decision was made to accept the manuscript, which was distributed to selected wholesalers, reviewers and booksellers. Copies were also sent to the editorial director of the Book of the Month Club ("BOMC"). Although BOMC decided not to offer the book as a selection of its main club, a subsidiary, the Fortune Book Club, which appealed to a readership composed largely of business executives, did choose it as a selection.

A committee of various P-H department representatives, including the book's editor, met on March 28, 1974 to discuss production plans. The sales estimates of committee members varied from 12 to 15 thousand copies for the first year although by May two members were predicting sales of only 10 thousand. Estimates of from 15 to 20 thousand sales over a five year period were also made. Cavin, an ardent supporter of the book, made estimates of 20 to 25 thousand in the first year and 25 to 35 thousand over five years. The committee decided on a first printing of 15,000 copies at a retail price of \$12.95 per copy. At a later meeting, the committee decided to devote roughly \$15,000 to advertising.

Although the literary or scholarly merits of the book are not our concern, its nature, tone and marketability among various audiences are key facts in this litigation, for they bear upon the book's prospects for commercial success and illuminate the negative reactions which later set in at P-H. The book is a harshly critical portrait of the DuPont family and their role in American social, political and economic history. Indeed, it is a harshly critical portrait of that history itself. The reactions of readers and reviewers in the record indicate that the book is polarizing, the difference in viewpoint depending in no small measure upon the politics of the beholder. A significant number of readers regard the book as a strident caricature, drawing every conceivable inference against the DuPont family and firms with which members of the family were or are associated. One judge at BOMC, for example, described it as "300,000 words of pure spite." On the other hand, the book has a loyal band of admirers. It received a favorable review in many newspapers, including the *New York Times* Book Review section. Its comprehensiveness and the extensive research on which it was based were frequently noted. The book also has some appeal to another audience, namely readers with a taste for gossip about the rich and powerful, particularly readers in Delaware. Indeed, it was once first in nonfiction sales in that state.

In the American market, the book's appeal is somewhat limited by the fact that it is not a work critical of business on grounds that reform of capitalism is necessary to save it, a viewpoint with mainstream appeal. Rather, it represents a Marxist view of history. Also weighing against its overall marketability were its size (586 pages of text, 2 inches thick, three and one-half pounds), complexity (almost 200 family members with the surname DuPont and 170 years of American history) and price (\$12.95 in 1974 dollars).

Prior to June 1974, Grenquist appears not to have been aware of the nature and tone of the book, of the intensity of negative feeling that it might arouse in some readers or of evidence of serious inaccuracies. He may have been reassured partly by Cavin's enthusiasm and partly by the book's selection by the Fortune

Book Club. That selection itself remains something of a mystery since the Club's inside reader concluded it was "a bad book, politically crude and cheaply journalistic." However, instead of accepting his recommendation that it "be fed back to the author page by page," BOMC contracted with P-H to have it adopted by the Fortune Book Club.

In June 1974, a chain of events was set in motion which apprised Grenquist of the negative aspects of Zilg's work. A member of the DuPont family obtained an advance copy of the manuscript from a bookseller and, predictably outraged, turned it over to the Public Affairs Department of the DuPont Company. Members of that department sought to locate individuals in P-H's management whom they knew personally in order to speak privately about the book, but to no avail. They advised the family member to do nothing before the book was published.

In July, the DuPont Company learned that the book had been accepted as a Fortune Book Club selection and decided to act before publication anyway. Harold Brown of DuPont ("DuPont-Brown") telephoned Vilma Bergane, a manager of Fortune Book Club, having received her name from the managing editor of *Fortune Magazine*. He told her the book had been read by several persons, some of whom were attorneys, and that the book was "scurrilous" and "actionable." Bergane passed on a version of DuPont-Brown's remarks to F. Harry Brown, Editor-in-Chief of BOMC ("BOMC-Brown"). DuPont-Brown then told BOMC-Brown that DuPont family attorneys found the book abusive and that he was to try to locate someone at P-H with whom to discuss the book. He also told BOMC-Brown that the DuPont Company did not intend to throw its weight around. BOMC-Brown referred DuPont-Brown to Peter Grenquist at P-H.

Some days later, apparently in an effort to quash rumors or inaccurate messages to the contrary, DuPont-Brown telephoned Grenquist to assure him that DuPont was not attempting to block publication of the book, initiate litigation, or even approach P-H in any kind of adversarial posture. One such rumor, allegedly passed on to Cavin by an editor at BOMC who does not remember the conversation, was that DuPont had gone to *Fortune Magazine* and threatened to pull all its advertising. *Fortune*, owned by Time, Inc., had no connection with the Fortune Book Club at this time.

Meanwhile, BOMC-Brown decided to look into the matter personally. Over the July 27–28 weekend, he "spent a horrible two days reading" the book and decided it was an unsuitable selection for the Fortune Book Club. He later stated that he felt no pressure from the DuPont Company in reaching this decision. In view of the nature of the book and the Club's audience of business executives, his decision seems an inevitable result of his reading the book. BOMC immediately notified P-H of its decision not to distribute the book. The reason given was BOMC's belief that the book was malicious and had an objectionable tone.

P-H's own detailed examination of the manuscript may also have induced or heightened skepticism on Grenquist's part. A toning down was found to be necessary even after the book was in page proof. Mistakes of fact, such as a statement that Irving S. Shapiro (DuPont's Chief Executive Officer) had served as an Assistant District Attorney in Queens County, New York, were discovered. More serious matters also came to light. The original manuscript attacked Judge Harold R. Medina for matters irrelevant to the DuPonts and in a fashion which the district court characterized as libelous. Zilg admitted at trial that there was no factual foundation for this attack. Some eyebrows may well have been raised

when this passage was discovered and deleted, since it was not only unfounded but also irrelevant.

P-H continued to correct and tone down the book, hoping to reverse BOMC's decision not to offer it through the Fortune Book Club. A certain defensiveness also began to creep into P-H's attitude toward the book. On August 2, Grenquist circulated a memorandum which noted that questions had arisen regarding both the tone of the book and Zilg's approach and recommended that the adjective "polemical" henceforth be used because "[t]he book is a polemical argument and no pretense is made that it is anything else." More importantly, he also cut the first printing from 15,000 copies to 10,000, stating that 5,000 copies were no longer needed for BOMC. The proposed advertising budget was also slashed from \$15,000 to \$5,500.

Judge Briant held that the DuPont Company had a constitutionally protected interest in bringing the "scurrilous" nature of the book and its unsuitability as a Fortune Book Club selection to the attention of senior officials at BOMC and P-H. He expressly found that the Company did not engage in coercive tactics but limited its actions to the expression of its good faith opinion.

As to P-H Judge Briant found that the publishing contract required the publisher to "exercise its discretion in good faith in planning its promotion of the Book, and in revising its plans." This obligation required that Prentice-Hall use "its best efforts . . . to promote the book fully and fairly." He held that P-H breached this obligation because it had no "sound" or "valid" business reason for reducing the first printing by 5,000 volumes and the advertising budget by \$9,500, which allowed the book to go briefly out of stock (although wholesalers had ample copies) just as it gained sales momentum. He expressly found that since BOMC did its own printing of club selections, the first printing cut could not be attributed to the cancellation of the BOMC order. He also found that the book would have sold 25,000 copies had P-H not taken these actions.

Having concluded that P-H had no sound or valid business reason for reducing the first printing and advertising budget, Judge Briant held that P-H "prived" Zilg's book on the basis of the testimony of plaintiff's expert, William Decker. Decker testified that publishers often mount a wholly inadequate merchandising effort after concluding that a book does not meet prior expectations in either quality or marketability. Such "priving" is intended to fulfill the technical requirements of the contract to publish but to avoid adding to one's losses by throwing good money after bad . . ."

We agree with Judge Briant that DuPont did not tortiously interfere with Zilg's beneficial commercial relationships. We disagree, however, with his conclusion that P-H breached its contract with Zilg and reverse that judgment.

I. Tortious Interference by DuPont

[Finding that New York would follow the Restatement (Second) of Torts (1977), the Court held that although DuPont's actions were a cause in fact of BOMC's decision to drop the book, a reading of §§ 766 and 767 led to the conclusion that DuPont had limited itself to a "good faith expression of views" without threats of litigation or economic coercion.]

. . . Such communications seem to me socially beneficial because they promote the free flow of ideas. . . . Authors have no exclusive right to the ear of those who disseminate their works, for intelligent decisions by publishers and others distributing books are enhanced by the free flow of information. . . .

2. *P-H's Breach of Contract*

... Judge Briant [erred when he] read the contract in question to oblige P-H “to use its best efforts . . . to promote the Book fully . . .” and found that the decision to cut the first printing and original advertising budget resulted in a loss of sales momentum when the book was briefly out of stock. These actions by P-H he held, breached its agreement with Zilg because they lacked a sound or valid business reason.

Putting aside for the moment P-H's motive in slashing the first printing and advertising budget, we note that Zilg neither bargained for nor acquired an explicit “best efforts” or “promote fully” promise, much less an agreement to make certain specific promotional efforts. . . .

While P-H obligated itself to “publish” the book once it had accepted it, the contract expressly leaves to P-H's discretion printing and advertising decisions. Working as we must in the context of a surprising absence of case law on the meaning of this not uncommon agreement, we believe that the contract in question establishes a relationship between the publisher and author which implies an obligation upon the former to make certain efforts in publishing a book it has accepted notwithstanding the clause which leaves the number of volumes to be printed and the advertising budget to the publisher's discretion. This obligation is derived both from the common expectations of parties to such agreements and from the relationship of those parties as structured by the contract. . . .

Zilg, like most authors, sought to take advantage of a division of labor in which firms specialize in publishing works written by authors who are not employees of the firm. Under contracts such as the one before us, publishing firms print, advertise and distribute books at their own expense. In return for performing these tasks, and for bearing the risk of a book's failure to sell, the author gives the publisher exclusive rights to the book with certain reservations not important here. Such contracts provide for royalties on sales to the author, often on an escalating basis, i.e., higher royalties at higher levels of sales.

While publishers and authors have generally similar goals, differences in perspective and resulting perceptions are inevitable. An author usually has a bigger stake in the success or failure of a book than a publisher who may regard it as one among many publications, some of which may lose money. The author, whose eggs are in one basket, thus has a calculus of risk quite different from the publisher so far as costly promotional expenditures are concerned. The publisher, of course, views the author's willingness to take large risks as a function of the fact that it is the publisher's money at peril. Moreover, the publisher will inevitably regard his or her judgment as to marketing conditions as greatly superior to that of a particular author.

One means of reconciling these differing viewpoints is “up-front” money—\$6,500 in Zilg's case—which provides a token of the publisher's seriousness about the book. Were such sums not bargained for, acquisition of publishing rights would be virtually costless and firms would acquire those rights without regard to whether or not they had truly decided to publish the work.

However, up-front money alone cannot fully reconcile the conflicting interests of the parties. Uncertainty surrounds the publication of most books and publishers must be cautious about the size of up-front payments since they increase the already considerable economic risks they take by printing and promoting books at their own expense. Negotiating such matters as the number of volumes to be

printed and the level of advertising efforts might be possible but such bargaining in the case of each author and each book would be enormously costly. There is never a guarantee of ultimate agreement, and if a set of negotiations fails over these issues, the bargaining must begin again with another publisher. Moreover, publishers must also be wary of undertaking obligations to print a certain number of volumes or to spend fixed sums on promotion. They will strongly prefer to have flexibility in reacting to actual marketing conditions according to their own experience. . . .

Once P-H had accepted the book, it obtained the exclusive right to publish it. Were the clause empowering the publisher to determine promotional expenses read literally, the contract would allow a publisher to refuse to print or distribute any copies of a book while having exclusive rights to it. In effect, authors would be guaranteed nothing but whatever up-front money had been negotiated, and the promise to publish would be meaningless. We think the promise to publish must be given some content and that it implies a good faith effort to promote the book including a first printing and advertising budget adequate to give the book a reasonable chance of achieving market success in light of the subject matter and likely audience. . . .

However, the clause empowering the publisher to decide in its discretion upon the number of volumes printed and the level of promotional expenditures must also be given some content. If a trier of fact is free to determine whether such decisions are sound or valid, the publisher's ability to rely upon its own experience and judgment in marketing books will be seriously hampered. We believe that once the obligation to undertake reasonable initial promotional activities has been fulfilled, the contractual language dictates that a business decision by the publisher to limit the size of a printing or advertising budget is not subject to second guessing by a trier of fact as to whether it is sound or valid. . . .

Given the line we draw, a breach of contract might be proven by Zilg in two ways. First, he might demonstrate that the initial printing and promotional efforts were so inadequate as not to give the book a reasonable chance to catch on with the reading public. Second, he might show that even greater printing and promotional efforts were not undertaken for reasons other than a good faith business judgment. Because he has shown neither, we reverse the judgment in his favor.

As to P-H's initial obligation, Zilg has not shown that P-H's efforts on behalf of his book did not give it a reasonable chance to catch on with the reading public. It printed or reprinted 13,000 volumes (3,000 over the volume of sales at which the highest royalty was triggered), authorized an advertising budget of \$5,500 (1974 purchasing power), distributed over 600 copies to reviewers, purchased ads in papers such as *the New York Times* and *Wall Street Journal*, and made reasonable efforts to sell the paperback rights. The documentary record shows that Grenquist took a continued interest in marketing the book, made suggestions as to promoting it effectively and ordered that "rave reviews" be sent to BOMC as late as January, 1975.

The fact that initial decisions as to promotional efforts were trimmed is of no relevance absent evidence that the actual efforts made were so inadequate that the book did not have a reasonable chance to catch on with the reading public. The record is barren of such evidence. . . .

So long as the initial promotional efforts are adequate under the test we outline above, a publisher's printing and advertising decisions do not breach a contract such as that before us unless the plaintiff proves that the motivation underlying

those decisions was not a good faith business judgment. Zilg failed to produce such evidence. His case was based on the theory that economic coercion by the DuPont Company caused P-H to reduce its promotional efforts. Judge Briant found against him on this issue and, for reasons stated above, we affirm this determination. . . .

. . . [T]he contract between P-H and Zilg left the decisions in question to the business judgment of the publisher, the author's protection being in the publisher's experience, judgment and quest for profits. P-H's promotional efforts were, in Decker's words, "adequate," notwithstanding the reduction of the first printing and the initial advertising budget. Indeed, those reductions, coming on the heels of BOMC's decision not to distribute the book, appear to be a rational reaction to that news. Decker himself testified that the Fortune Book Club selection was an important barometer of marketability since it was an independent judgment that the book had an audience. Zilg's contract with P-H did not compel the publisher to ignore the implications of BOMC's change of heart.

Affirmed in part, reversed in part. . . .

PIERCE, CIRCUIT JUDGE (concurring). . . .

NOTE

The "reasonable efforts" standard, of course, will not apply where the company accepts express obligations of a higher order (a major reason why companies strenuously resist the inclusion of specific promotional and marketing commitments.) Thus, in *Contemporary Mission, Inc. v. Famous Music Corporation*, 557 F.2d 918 (2d Cir. 1977), Famous, a record distributor, promised Contemporary, a production company that it would "select and appoint, within the first year of the agreement, at least one person to personally oversee the nationwide promotion of the sale of records, to maintain contact with Contemporary and to submit weekly reports to Contemporary; [that it would] to spend, within the first year of the agreement, no less than \$50,000 on the promotion of records; and [that it would] release, within the first two years of the agreement, at least four separate single records" delivered by the production company. The agreement also contained a non-assignability clause. Famous proceeded to sell its record division to ABC Records, Inc. ABC then informed Contemporary that ABC "was not going to have any relationship with Contemporary." The Second Circuit rejected Famous' argument that it had complied with its contractual obligations by appointing the product manager and spending the \$50,000. These obligations, the court said, were but two of many created by the [subject] agreement. Under the doctrine of *Wood v. Lucy, Lady Duff-Gordon*, Famous had an obligation to use its reasonable efforts to promote [Contemporary's records] on a nationwide basis. That obligation could not be satisfied merely by technical compliance with the spending and appointment requirements of . . . the agreement. Even assuming that Famous complied fully with those requirements, there was evidence from which the jury could find that Famous failed to adequately promote *Virgin* [Contemporary's record]. The question is a close one, particularly in light of [Famous' CEO's] obvious commitment to the success of *Virgin* and in light of the efforts that were in fact exerted and the lack of any serious dispute between the parties prior to the sale to ABC. However, there was evidence that Famous prematurely terminated the promotion of the first single record, "Got To Know," shortly after its release, and that Famous limited its promotion of the second record, "Kyrie," to a single city, rather than promoting it nationwide. Moreover, there was evidence that, prior to the sale to ABC, Famous underwent a budget reduction and cut back its promotional staff. From this, the jury could infer that the promotional effort was reduced to a level that was less than adequate. On the whole, therefore, we are not persuaded that the jury's verdict should be disturbed. Because the record continued

to sell, despite ABC's refusal to support it, and because the single rose from #80 to #61 on the Billboard "Hot Soul Singles" chart, "it cannot be gain-said that if someone had continued to promote it, and if it had not been withdrawn from the market, it would have sold more records than it actually did."

And circumstances may arise which obviate a company's obligations to exploit particular material, as evidenced by the following case.

Third Story Music, Inc. v. Waits, 41 Cal.App. 4th 798, 48 Cal.Rptr.2d 747 (Ct.App. 2d Dist. 1995), rev. denied (Mar. 21, 1996)

EPSTEIN, ACTING PJ.

This case involves a dispute between a [music publisher/production company and a singer/songwriter.] The issue is whether a promise to market music, or to refrain from doing so, at the election of the promisor, is subject to the implied covenant of good faith and fair dealing, where substantial consideration has been paid by the promisor. We conclude that the implied covenant does not apply.

Factual and Procedural Summary

[Waits was an exclusive songwriter/recording artist signed to TSM, which licensed distribution rights in Wait's recordings to Asylum Records (now Elektra/Asylum), pursuant to contractual provisions which gave the distributor the worldwide right "to manufacture, sell, distribute and advertise" (copies of Waits' recordings) or, "at [its] election, [to] refrain from any or all of the foregoing." TSM received advances against future royalties from record sales. These advances began at \$8,800 per annum and progressed to the point where TSM received \$50,000 plus an additional \$100,000, and later \$150,000 per LP. The parties operated on the basis of an interrelated series of agreements beginning in 1972 until 1993, at which time a third party distributor approached E/A's sister company Warner Special Products, which licensed "aftermarket" projects and other re-releases, for a license to compile and issue an LP of previously-unreleased recordings made by Waits during the term of the TSM/EA agreements. Warner refused to grant the license without Waits' approval. Waits refused. TSM then sued the Warner entities for damages, claiming that Warner had no right to insist upon Waits' approval and that Warner had therefore breached the implied covenant of good faith and fair dealing. Warner's demurrer was sustained because of the clause permitting the distributor to refrain from exploiting the recordings. TSM appealed, contending that such discretionary power must be exercised in good faith, and that Warner's insistence upon Waits' approval of the proposed license was not in good faith.]

Discussion

I

When an agreement expressly gives to one party absolute discretion over whether or not to perform, when should the implied covenant of good faith and fair dealing be applied to limit its discretion? Both sides rely on different language in the recent Supreme Court decision in *Carma Developers (Cal.) Inc. v. Marathon Development California Inc.* (1992) 2 Cal.4th 342, 6 Cal.Rptr. 467, 826 P.2d 710 to answer that question. In *Carma*, the parties had entered into a lease agreement which stated that if the tenant procured a potential sublessee and

asked the landlord for consent to sublease, the landlord had the right to terminate the lease, enter into negotiations with the prospective sublessee, and appropriate for itself all profits from the new arrangement. In the passage relied upon by TSM, the court recognized that “[t]he covenant of good faith finds particular application in situations where one party is invested with a discretionary power affecting the rights of another.” (2 Cal. 4th at 372, 6 Cal.Rptr.2d 467, 826 P.2d 710.) The court expressed the view that “[s]uch power must be exercised in good faith.” (*Id.*)

At the same time, the Carma court upheld the right of the landlord to freely exercise its discretion to terminate the lease in order to claim for itself—and deprive the tenant of—all profit from the expected sublease. In this regard, the court stated: “We are aware of no reported case in which a court has held the covenant of good faith may be read to prohibit a party from doing that which is expressly permitted by an agreement. On the contrary, as a general matter, implied terms should never be read to vary express terms.” [Citations.] “The general rule [regarding the covenant of good faith] is plainly subject to the exception that the parties may, by express provisions of the contract, grant the right to engage in the very acts and conduct which would otherwise have been forbidden by an implied covenant of good faith and fair dealing. . . .

This is in accord with the general principle that, in interpreting a contract ‘an implication . . . should not be made when the contrary is indicated in clear and express words.’ 3 Corbin, *Contracts*, 564, p. 298 (1960). . . . [I]f the defendants were given the right to do what they did by the express provisions of the contract there can be no breach.” (2 Cal.4th at p. 374, 6 Cal.Rptr.2d 467, 826 P.2d 710, quoting VTR, *Incorporated v. Goodyear Tire & Rubber Company* (S.D.N.Y. 1969) 303 F. Supp. 773, 777–778.)

. . . In situations such as the present one, where a discretionary power is expressly given by the contractual language, the quoted passages from Carma set up an apparent inconsistency between the principle that the covenant of good faith should be applied to restrict exercise of a discretionary power and the principle that an implied covenant must never vary the express terms of the parties’ agreement. We attempt to reconcile the two.

II

We first emphasize a long-established rule concerning implied covenants. To be imposed “(1) the implication must arise from the language used or it must be indispensable to effectuate the intention of the parties; (2) it must appear from the language used that it was so clearly within the contemplation of the parties that they deemed it unnecessary to express it; (3) implied covenants can only be justified on the grounds of legal necessity; (4) a promise can be implied only where it can be rightfully assumed that it would have been made if attention had been called to it; (5) there can be no implied covenant where the subject is completely covered by the contract.” (*Lippman v. Sears, Roebuck & Co.* (1955) 44 Cal.2d 136, 142, 280 P.2d 775; *City of Glendale v. Superior Court* (1993) 18 Cal.App. 4th 1768, 23 Cal.Rptr.2d 305.)

- [The court proceeded to review some of the cases cited in *Carma*:
- *Perdue v. Crocker National Bank* (1985) 38 Cal.3d 913, 216 Cal.Rptr. 345, 702 P.2d 503, where, although the bank was given discretion to set NSF check charges, the court held that an open term (such as price) had to be filled in in good faith, and the court pro-

ceeded to impose an objective standard. Use of the implied covenant was “indispensable” and “justified by legal necessity.”

- *Cal. Lettuce Growers v. Union Sugar Co.* (1955) 45 Cal.2d 474, 289 P.2d 785. Again, although the contract permitted the buyer to set the price of sugar beets, which would have rendered the contract illusory, the court held that the implied covenant obligated the buyer to use good faith, and proceed to establish an objective price to preserve the enforceability of the agreement.
- A number of cases require reasonable efforts to generate profits where exclusive promotional or licensing rights are granted solely in return for royalties based on exploitation: *Zilg v. Prentice-Hall, Inc.* (2d Cir. 1983) 717 F.2d 671, 79–681; *Wood v. Lucy, Lady Duff-Gordon* (1917) 222 N.Y. 88, 118 N.E. 214.]

In each of these cases, the courts were forced to resolve contradictory expressions of intent from the parties: the intent to give one party total discretion over its performance and the intent to have a mutually binding agreement. In that situation, imposing the duty of good faith creates a binding contract where, despite the clear intent of the parties, one would not exist. Faced with that choice, courts prefer to imply a covenant at odds with the express language of the contract rather than literally enforce a discretionary language clause and thereby render the agreement unenforceable. . . .

[The court proceeded to discuss *April Enterprises, Inc. v. KTTV* (1983) 147 Cal.App. 3d 805, 195 Cal.Rptr. 421, cited by TSM. The contract gave the station the right to erase tapes after they were broadcast. However, the contract also gave the producer the right to sell the old shows in syndication. Judgment dismissing the complaint was reversed: the covenant might be applied in order to reconcile the conflicting contract provisions.]

The court in *April Enterprises* used the implied covenant to interpret an ambiguous discretionary power. As we have seen, the implied covenant of good faith is also applied to contradict an express contractual grant of discretion when necessary to protect an agreement which otherwise would be rendered illusory and unenforceable. Does a different result ensue where the contract is unambiguous, otherwise supported by consideration, and the implied covenant is not needed to effectuate the parties’ expressed desire for a binding agreement? We believe it does, and the cases cited by the court in *Carma* illustrate this point.

[*Balfour, Guthrie & Co. v. Gourmet Farms* (1980) 108 Cal.App. 3d 181, 166 Cal.Rptr. 422. Grain producer agreed that broker could set price of grain to be purchased from producer based on market rate when price was set. Broker paid an advance. Broker had discretion to set prices after a missed margin call, which would occur if the value of the grain dropped a certain percentage below the amount of the advance. This occurred, and the court upheld the right of the broker to set the price in a falling market.]

[*Brandt v. Lockheed Missiles & Space Co.* (1984) 154 Cal.App. 3d 1124, 201 Cal. Rptr. 746. Employment contract provided that if the company considered the employee’s invention worthwhile, and secured a patent on it, the company would pay the employee \$600, and could, but was not obligated to, grant him an additional “Special Invention Award” and that the decision of Lockheed’s committee would be “final and conclusive.” Having faithfully followed the contractual procedure, the court stated that it could not reasonably be said that in doing so Lockheed had violated the implied covenant of good faith and fair dealing.]

[*Gerdlund v. Electronic Dispensers International* (1987 190 Cal.App. 3d 263, 235 Cal.Rptr. 279. Company terminated sales representative under clause permitting termination on 30 days' notice "at any time and for any reason." Holding that the 30-day notice provision constituted sufficient consideration, the appellate court reversed the lower court's application of the implied covenant of good faith and fair dealing, saying that "[a] provision for termination by one or either party after notice for a fixed period is enforceable and does not render the contract illusory."]

In each of these cases, as in *Carma*, one of the parties was expressly given a discretionary power but regardless of how such power was exercised, the agreement would have been supported by adequate consideration. There was no tension between the parties' express agreement and their intention to be bound, and no necessity to impose an implied covenant to create mutuality. The conclusion to be drawn is that courts are not at liberty to imply a covenant directly at odds with a contract's express grant except in those relatively rare instances when reading the provision literally would, contrary to the parties' clear intention, result in an unenforceable, illusory agreements. In all other situations where the contract is unambiguous, the express language is to govern. . . .

The illusory promise [of exploitation] was not . . . the only consideration given by the [distributor,] . . . which promised to pay TSM a guaranteed minimum amount no matter what efforts were undertaken. It follows that, whether or not an implied covenant is read into the agreement, the agreement would be supported by consideration and would be binding. [The guaranteed payments involved do not appear to be large in relation to what might be earned from the [recorded performances] of a successful recording artist. But unless the consideration given was so one-sided as to create an issue of unconscionability, the courts are not in a position to decide whether legal consideration agreed to by the parties is or is not fair. The [payments in this case] amounted to more than the peppercorn of consideration the law requires. [Note in original.]

As we see it, [Elektra/Asylum] bargained for and obtained all rights to Waits' [recordings] . . . and paid legally adequate consideration. That it chose not to grant a license in a particular instance cannot be the basis for complaint on the part of TSM as long as [Elektra/Asylum] made the agreed minimum payments and paid royalties when it did exploit the work . . . TSM was free to accept or reject the bargain offered and cannot look to the courts to amend the terms that prove unsatisfactory. . . .

HASTINGS AND ROBERT KLEIN, JJ., concur.

5.3 LIMITS ON EXPLOITATION

5.3.1 Creative Control

Actors and actresses frequently seek approval of the director and the script. No one wants to be caught in a flop, and producers and studios are well aware of the box office history of the previous films of the performers they cast. In addition, television shows such as "Entertainment Tonight" broadcast box office numbers, they appear on a regular basis in the Los Angeles Times and other print publications, and financial and other information once of interest only to industry insiders has grown increasingly fascinating to the general public as well.

The following case and arbitration summaries illustrate the consequences which may flow from a grant of creative control. In *Parker v. Twentieth Century-Fox Film Corporation*, script and director approvals were among the weapons Shirley MacLaine employed successfully to ward off an assignment to what she considered an inferior (and potentially career-limiting) assignment. In the *Cimino* and *Beatty* arbitrations, we see that the power of “final cut” in the hands of a director is truly enormous, but that it must nonetheless be exercised in good faith, in the absence of special circumstances.

**Parker v. Twentieth Century-Fox Film Corporation, 3 Cal.3d 176, 474
P.2d 689 (1970)**

BURKE, J.

Defendant Twentieth Century-Fox Film Corporation appeals from a summary judgment granting to plaintiff the recovery of agreed compensation under a written contract for her services as an actress in a motion picture. As will appear, we have concluded that the trial court correctly ruled in plaintiff’s favor and that the judgment should be affirmed.

Plaintiff [Shirley MacLaine] was to play the female lead in defendant’s contemplated production of a motion picture entitled *Bloomer Girl* [under a contract which] provided [for] a minimum “guaranteed compensation” of \$53,571.42 per week for 14 weeks commencing May 23, 1966, for a total of \$750,000. Prior to May 1966 defendant decided not to produce the picture and by a letter dated April 4, 1966, it notified plaintiff of that decision and that it would not “comply with our obligations to you under” the written contract.

By the same letter and with the professed purpose “to avoid any damage to you,” defendant instead offered to employ plaintiff as the leading actress in another film tentatively entitled *Big Country*. *Big Man* (hereinafter, *Big Country*). The compensation offered was identical, as were 31 of the 34 numbered provisions or articles of the original contract. Unlike *Bloomer Girl*, however, which was to have been a musical production, *Big Country* was a dramatic “western type” movie. *Bloomer Girl* was to have been filmed in California; *Big Country* was to be produced in Australia. Also, certain terms in the proffered contract varied from those of the original. Plaintiff was given one week within which to accept; she did not and the offer lapsed. Plaintiff then commenced this action seeking recovery of the agreed guaranteed compensation.

The complaint sets forth two causes of action. The first is for money due under the contract; the second, based upon the same allegations as the first, is for damages resulting from defendant’s breach of contract. . . .

The general rule is that the measure of recovery by a wrongfully discharged employee is the amount of salary agreed upon for the period of service, less the amount which the employer affirmatively proves the employee has earned or with reasonable effort might have earned from other employment. . . . However, before projected earnings from other employment opportunities not sought or accepted by the discharged employee can be applied in mitigation, the employer must show that the other employment was comparable, or substantially similar, to that of which the employee has been deprived; the employee’s rejection of or failure to seek other available employment of a different or inferior kind may not be resorted to in order to mitigate damages. . . .

In the present case defendant has raised no issue of *reasonableness of efforts*

by plaintiff to obtain other employment; the sole issue is whether plaintiff's refusal of defendant's substitute offer of *Big Country* may be used in mitigation. Nor, if the *Big Country* offer was of employment different or inferior when compared with the original *Bloomer Girl* employment, is there an issue as to whether or not plaintiff acted reasonably in refusing the substitute offer. Despite defendant's arguments to the contrary, no case cited or which our research has discovered holds or suggests that reasonableness is an element of a wrongfully discharged employee's option to reject, or fail to seek, different or inferior employment lest the possible earnings therefrom be charged against him in mitigation of damages.

Applying the foregoing rules to the record in the present case, with all intendments in favor of the party opposing the summary judgment motion—here, defendant—it is clear that the trial court correctly ruled that plaintiff's failure to accept defendant's tendered substitute employment could not be applied in mitigation of damages because the offer of the *Big Country* lead was of employment both different and inferior, and that no factual dispute was presented on that issue. The mere circumstance that *Bloomer Girl* was to be a musical review calling upon plaintiff's talents as a dancer as well as an actress, and was to be produced in the City of Los Angeles, whereas *Big Country* was a straight dramatic role in a "Western Type" story taking place in an opal mine in Australia, demonstrates the difference in kind between the two employments; the female lead as a dramatic actress in a western style motion picture can by no stretch of imagination be considered the equivalent of or substantially similar to the lead in a song-and-dance production.

Additionally, the substitute *Big Country* offer proposed to eliminate or impair the director and screenplay approvals accorded to plaintiff under the original *Bloomer Girl* contract . . . and thus constituted an offer of inferior employment. No expertise or judicial notice is required in order to hold that the deprivation or infringement of an employee's rights held under an original employment contract converts the available "other employment" relied upon by the employer to mitigate damages, into inferior employment which the employee need not seek or accept. . . .

SULLIVAN, ACTING CIRCUIT JUDGE (dissenting)

The basic question in this case is whether or not plaintiff acted reasonably in rejecting defendant's offer of alternate employment. The answer depends upon whether that offer (starring in *Big Country*, *Big Man*) was an offer of work that was substantially similar to her former employment (starring in *Bloomer Girl*) or of work that was of a different or inferior kind. To my mind this is a factual issue which the trial court should not have determined on a motion for summary judgment. The majority have not only repeated this error but have compounded it by applying the rules governing mitigation of damages in the employer-employee context in a misleading fashion. Accordingly, I respectfully dissent. . . .

Although the majority appear to hold that there was a difference "in kind" between the employment offered plaintiff in *Bloomer Girl* and that offered in *Big Country* . . . , an examination of the opinion makes crystal clear that the majority merely point out differences between the two *films* (an obvious circumstance) and then apodically assert that these constitute a difference in the *kind of employment*. The entire rationale of the majority boils down to this: that the "*mere circumstances*" that *Bloomer Girl* was to be a musical review while *Big Country*

was a straight drama “demonstrates the difference in kind” since a female lead in a western is not “the equivalent of or substantially similar to” a lead in a musical. This is merely attempting to prove the proposition by repeating it. It shows that the vehicles for the display of the star’s talents are different but it does not prove that her employment as a star in such vehicles is of necessity different in kind and either inferior or superior . . .

It seems to me that *this inquiry* involves, in the instant case at least, factual determinations which are improper on a motion for summary judgment. Resolving whether or not one job is substantially similar to another or whether, on the other hand, it is of a different or inferior kind, will often (as here) require a critical appraisal of the similarities and differences between them in light of the importance of these differences to the employee. This necessitates a weighing of the evidence . . .

The majority do not confront the trial court’s misuse of judicial notice. They avoid this issue through the expedient of declaring that neither judicial notice nor expert opinion (such as that contained in the declarations in opposition to the motion) is necessary to reach the trial court’s conclusion. *Something*, however, clearly is needed to support this conclusion. Nevertheless, the majority make no effort to justify the judgment through an examination of the plaintiff’s declarations. Ignoring the obvious insufficiency of these declarations, the majority announce that “the deprivation or infringement of an employee’s rights held under an original employment contract” changes the alternate employment offered or available into employment of an inferior kind. . . .

NOTE

Although the court in *Parker* stressed creative control issues, the decision in *David Lynch v. CIBY 2000*, Case No. CV 97-9022 (Rzx) (C.D. Ca.) granting summary judgment for plaintiff in a “pay or play” case relied on *Payne v. Pathe Studios, Inc.*, 6 Cal.App. 2d 136 (1935) cited with approval in *de la Palaise v. Gaumont-British Picture Corp., Ltd.*, 39 Cal.App. 2d 461 (1940) for the proposition that “[T]he duty to mitigate does not apply when an employee seeks minimum [guaranteed] compensation.” The court also rejected defendant’s argument that the “pay or play” clause was a liquidated damages provision and unenforceable as a penalty under Cal. Civil Code § 1671(b).

5.3.1.1 *The Cimino and Beatty Arbitrations*

However, the directors have had perhaps the most heated battles with studios over who will have “final cut”—the right to determine what will ultimately be shown to the public. It is generally conceded that film is a “director’s medium” (although Ralph Rosenblum a leading editor and author of *When the Shooting Stops . . . The Cutting Begins: A Film Editor’s Story*, regards editing as “a major center of film creation”).

Two arbitrations conducted under the aegis of the Directors Guild of America illustrate the power of final cut—those between *Michael Cimino/Sweetwater Films, Ltd and Gladden Entertainment Corp. re: “The Sicilian”* (DGA Case No. 2183, decided by Arbitrator Murray L. Schwartz on July 23, 1987), and between *Warren Beatty/JRS Productions, Inc. and Paramount Pictures Corp. re: “Reds”* (DGA Case No. 1738, decided by Arbitrator Edward Mosk on April 15, 1985). (The authors gratefully acknowledge the assistance of Elliot Williams, General Counsel of the DGA, in making the opinions available for our analysis.)

In *Cimino*, the director had the right of final cut, after good faith consultation

with Gladden, so long as he delivered a film of not less than 105 minutes nor more than 125 minutes in length by a contractually specified date. The initial version (the “rough cut”) ran 155 minutes, and producer David Begelman became concerned that Cimino would be unable to meet the target running time and delivery date. The parties met and agreed to an extension of the delivery date, in return for which Cimino agreed that Begelman might “cut the film behind him” if the film as delivered exceeded 125 minutes.

Cimino proceeded to deliver a 125-minute version, which Begelman rejected as “a bad joke,” lacking full and complete continuity (a contention which Cimino’s attorney rejected). At a subsequent meeting between Begelman and Cimino, Begelman suggested a number of cuts which would reduce the running time by about 20 minutes. Cimino thereupon delivered two further, alternative versions, one at 121:30, the other at 143 minutes. At this point, Begelman notified Cimino that neither version was satisfactory and that Cimino’s services were no longer required.

Cimino’s position in the arbitration was simple: He had, in fact, timely delivered a proposed final cut meeting the stipulated time requirements, after good faith consultation with Gladden. Gladden, on the other hand, took the position that Cimino’s proposed final cut was unusable, since he had achieved the requisite length by deleting every scene (a total of 14) showing physical violence. While Cimino’s position was that this approach permitted him to focus upon interrelationships between characters against the unchanging background of Sicily, Gladden took the position that the film was intended not as a character study but rather a depiction of the struggle of the legendary bandit Turi Giuliano against the Mafia, the state, the police, and the church. In addition, Gladden claimed that the cuts rendered the film incomprehensible, a position with which a large number of witnesses agreed, including Mario Puzo, author of the underlying novel, and Steve Shagan and Gore Vidal, who worked on versions of the screenplay. The only witnesses siding with Cimino were his editor and, perhaps, his attorney.

Arbitrator Murray L. Schwartz observed, at the outset, that:

A director’s final cut is an uncommon, if not rare, event [and] is solely a matter of private contract between the director and producer . . . [A]bsent qualifying language in the personal services agreement, a director with final cut has ultimate decision-making authority over creative and artistic decisions about the final version of the picture. . . . It gives the producer the benefit of the name and reputation of the director in the financing, distribution, and exhibition of the film.

Arbitrator Schwartz pointed out that Cimino had spent some 6 to 12 months editing the longer version, that he had merely designated the 14 scenes to be cut, and that he had never viewed the 125-minute version as a whole. After being told by Begelman that the shorter version was “a failure,” Cimino did not argue with Begelman or attempt to discuss the shorter version with him any further (which the arbitrator felt was Cimino’s obligation), nor did Cimino proceed to screen it or do anything else with it during the ensuing six weeks between the initial submission of the short version and the May 1 outside delivery date. “In short,” said the arbitrator,

... the only attention Cimino paid to the short version was during the several days in March when he was attempting to satisfy “the letter of the agreement.” This inattention is a far cry from the attention, care and review that, according to the testimony, directors normally accord to the versions they submit as their final cuts.

Moreover, the arbitrator pointed out that although Cimino was entitled to a copy of the shorter version, he never requested one and submitted a copy of the longer version—not his purported final cut—to the distributor for use in publicity trailers (even though the longer version contained the deleted scenes).

As additional justification for its position, Gladden pointed out that Cimino’s purported final cut was not “in accordance with the screenplay.” Although the Gladden/Cimino agreement contained no such requirement, it did contain a clause permitting Gladden to take over the picture “upon the occurrence [sic] of any event which permits such takeover under the completion bond guarantor for the Picture,” and the completion bond *did* require that the picture be produced “in accordance with the Approved Screenplay,” in default of which the completion bond guarantor had the right to take over the picture. However, the arbitrator rejected Gladden’s attempt to incorporate such a major point by implication, observing that such language had been dropped from an earlier draft of the Gladden/Cimino agreement and that even under the completion bond agreement, takeover was basically justified only by a budget overrun or by a delay in production.

Indeed, in light of seriously conflicting testimony as to the extent to which the obligation of a director to shoot the approved screenplay would supersede the director’s right of final cut, Arbitrator Schwartz stated that he:

would be loathe [*sic*] to interfere on this basis alone with Cimino’s creative authority under the right of final cut. [On the other hand,] this factor cannot be considered in isolation. According to the evidence, in practically every case in which directors with final cut had made what were considered to be significant cuts or changes, there had been extensive consultation with the producer before those changes were made final. As such, in the circumstances of this case, mere substantial consistency with the screenplay—if it existed—cannot of itself control.

The arbitrator stated that under the circumstances, it appeared that “in effect, [Cimino’s] first cut, made as a ‘proposal,’ became his final cut, despite his awareness that [Begelman] had rejected it absolutely [and] that behavior scarcely amounts to consultation, let alone ‘good faith consultation,’ as required by the contract.”

Observing that “it is—and should be—a rare case in which an arbitrator will be asked to deny a director his final cut [and that] a director’s claim of final cut is not vulnerable to every claim of procedural irregularity or creative misjudgment,” but requires the producer to bear “a heavy burden of establishing even a prima facie case that further inquiry is warranted,” the arbitrator proceeded to find that this *was* such a rare case, that Cimino did not treat the short version he submitted as a realistic attempt at a final cut, that Cimino had failed to engage in good faith consultation, and that Cimino could not prevent Gladden from proceeding to re-edit the picture.

The *Beatty* arbitration, by contrast, involved the attempt by Paramount to permit the ABC television network to make cuts in *Reds* in order to accommodate

commercials, although the agreement between Beatty and Paramount permitted cuts only to accommodate network “standards and practices” (that is, censorship). Beatty had final cut under the original agreement under which he undertook to produce and direct the film. The conditions imposed upon him (apart from the obligation to comply with censorship requirements) were to timely deliver a film of 95-140 minutes in length, with a rating no worse than “R.” In the event, Paramount accepted and released a film of 195 minutes in length. Beatty received the Academy Award for Best Director. In 1982, despite what Arbitrator Mosk characterized as Beatty’s “grave concern about any release of REDS [*sic*] on network television, fearing that changes in the picture would be required which would be objectionable to [him],” Paramount entered into a license agreement with ABC, which granted ABC the right “to edit the film and elements thereof for purposes of time segment requirements.” However, in 1984, in order to secure Beatty’s cooperation in Paramount’s efforts to acquire an extension for a proposed Paramount production of *Dick Tracy* (which was ultimately produced under the aegis of the Walt Disney Company, to moderate but not overwhelming success), Barry Diller, then chairman of Paramount, verbally agreed that Paramount would repurchase the network exhibition rights from ABC if the version which ABC proposed to televise proved unacceptable to Beatty. Beatty did not object to the proposed deletion of 1 minute 12 seconds for purposes of “standards and practices,” but he did object in a timely manner to ABC’s proposal to delete 6 minutes 25 seconds in order to accommodate commercials.

Arbitrator Mosk observed that:

Since the evidence is uncontradicted that Paramount gave Beatty almost unrestricted “final cut” on *Dick Tracy*, it is fair to conclude that the assertedly inflexible company policy regarding the right of abridgment for television could also be modified for Beatty in the case of *Reds* and was so modified. . . . [Indeed, under the contractual language,] the senior Paramount executives have an obligation to seek to prevent an abridgment of the picture even for otherwise permitted censorship cuts. . . . ABC could not acquire from Paramount any greater rights than Paramount had acquired from Beatty.

The arbitrator refused to consider the merits of the cuts which ABC proposed to make, stating that “it would not matter even if the arbitrator believed that the ABC editing had improved the picture as against the theatrical version. . . . Who is right on this creative issues not for the arbitrator to determine.”

With respect to Paramount’s assertion that the implied covenant of good faith and fair dealing required that Beatty cooperate in the attempt to achieve a solution to ABC’s time problems, the arbitrator observed that the operative agreement “did not set any objective standards on Beatty’s ultimate decision with regard to the ABC cuts,” and that Beatty’s exercise of his contractual rights “cannot amount to conduct which violates the implied covenant of good faith and fair dealing.”

NOTES

1. In *Preminger v. Columbia Pictures Corp.* 267 N.Y.S.2d 594 (Sup. Ct. N.Y. County 1966), it was permissible for a television syndicator to allow its sublicensees to make minor cuts in order to insert commercials and to comply with time period constraints. Although director Preminger had a “final cut” clause, the court held that it applied only to the

theatrical version, that this was a general clause, and that the clause granting television rights (which made no provision for “final cut”) was a more specific grant and therefore took precedence over Preminger’s theatrical “final cut” clause. The court cited *Autry v. Republic Productions*, 213 F.2d 667, 669 (9th Cir. 1954) for the proposition that a grant of television rights implied a privilege to cut and edit. The court noted that Preminger was well aware of the custom and practice of cutting for commercials, and had made provision for approval of such cuts in earlier agreements with respect to other films. Since the cuts were within normal parameters, Preminger was not entitled to prevent them.

2. For a further discussion of this issue, see Dana Harris, “Who Gets Final Cut?,” *The Hollywood Reporter*, February 2–8, 1999, p. 18.

5.3.2 Mutilation

Even in the absence of contractual provisions reserving artistic control to the creators of an entertainment project, creators may have other avenues available through which to seek relief, as is illustrated in the *Gilliam*, *Chesler*, and *Bobbs-Merrill* decisions that follow.

Gilliam v. American Broadcasting Companies, 538 F.2d 14 (2d Cir. 1976)

[The Monty Python comedy group was extremely popular in England on the basis of its BBC television series. In 1973, BBC licensed Time-Life Films to distribute the series in the United States. ABC, which had previously attempted unsuccessfully to obtain from the group the right to broadcast excerpts from the Python shows, secured a license from Time-Life to broadcast two 90-minute specials, each consisting of three 30-minute Python programs not previously aired in the United States.

Although BBC had assured the group that the programs would be shown in their entirety, in fact each segment was edited by Time-Life to allow for the insertion of commercials (BBC did not show commercials). As aired, the first special included only 66 of the original 90 minutes, having been edited further by ABC to remove material ABC considered offensive or obscene. Although the BBC/Time-Life license permitted editing “for insertion of commercials, applicable censorship or governmental . . . rules and regulations,” the underlying Python-BBC agreement contained no such broad grant. The BBC could only make “minor alterations” and “such other alterations as in its opinion are necessary in order to avoid involving the BBC in legal action or bringing the BBC into disrepute.” Changes of the latter type could only be made by BBC through a procedure requiring an approach to the group, and only after the group unreasonably refused to do so.

Dismayed at the first program the group tried to negotiate with ABC over editing of the second special. When these negotiations failed, Monty Python sought a preliminary injunction against the showing of the special. U.S. District Court Judge Lasker denied the motion. . . .

The Second Circuit reversed.]

LUMBARD, J.

. . . ABC presented the appellants with their first opportunity for broadcast to a nationwide network audience in this country. If ABC adversely misrepresented the quality of Monty Python’s work, it is likely that many members of the audience, many of whom, by defendant’s admission, were previously unfamiliar

with appellants, would not become loyal followers of Monty Python productions. The subsequent injury to appellants' theatrical reputation would imperil their ability to attract the large audience necessary to the success of their venture. Such an injury to professional reputation cannot be measured in monetary terms or recompensed by other relief . . .

In concluding that there is a likelihood of infringement here, we rely especially on the fact that the editing was substantial, i.e., approximately 27 percent of the original program was omitted, and the editing contravened contractual provisions that limited the right to edit Monty Python material. . . . Judge Lasker denied the preliminary injunction in part because he was unsure of the ownership of the copyright in the recorded program. Appellants first contend that the question of ownership is irrelevant because the recorded program was merely a derivative work taken from the script in which they hold the uncontested copyright. Thus, even if BBC owned the copyright in the recorded program its use of the work would be limited by the license granted to BBC by Monty Python for the use of the underlying script. We agree. . . .

Since the copyright in the underlying script survives intact despite the incorporation of that work into a derivative work, one who uses the script, even with the permission of the proprietor of the derivative work, may infringe the underlying copyright. . . .

One who obtains permission to use a copyrighted script in the production of a derivative work . . . may not exceed the specific purpose for which the permission was granted. . . .

The rationale for finding infringement when a licensee exceeds time or media restrictions on his license—the need to allow the proprietor of the underlying copyright to control the method in which his work is presented to the public—applies equally to the situation in which a licensee makes an unauthorized use of the underlying work by publishing it in a truncated version. Whether intended to allow greater economic exploitation of the work, as in the media and time cases, or to ensure that the copyright proprietor retains a veto power over revisions desired for the derivative work, the ability of the copyright holder to control his work remains paramount in our copyright law. We find, therefore, that unauthorized editing of the underlying work, if proven would constitute an infringement of the copyright in that work similar to any other use of a work that exceeded the license granted by the proprietor of the copyright.

If the broadcast of an edited version of the Monty Python program infringed the group's copyright in the script, ABC may obtain no solace from the fact that editing was permitted in the agreements between BBC and Time-Life or Time-Life and ABC. BBC was not entitled to make unilateral changes in the script and was not specifically empowered to alter the recordings once made; Monty Python, moreover, had reserved to itself any rights not granted to BBC. Since a grantor may not convey greater rights than it owns, BBC's permission to allow Time-Life, and hence ABC, to edit appears to have been a nullity. . . .

Although a holder of a derivative copyright may obtain rights in the underlying work through ratification, the conduct necessary to that conclusion has yet to be demonstrated in this case. It is undisputed that appellants did not have actual notice of the cuts in the October 3 broadcast until late November. Even if they are chargeable with the knowledge of their British representative, it is not clear that she had prior notice of the cuts or ratified the omissions, nor did Judge Lasker make any finding on the question. While [Monty Python's representative],

on September 5, did question how ABC was to broadcast the entire program if it was going to interpose 24 minutes of commercials, she received assurances from BBC that the programs would not be “segmented.” . . .

On the present record, it cannot be said that there was any ratification of BBC’s grant of editing rights. ABC, of course, is entitled to attempt to prove otherwise during the trial on the merits.

Aside from the question of who owns the relevant copyrights, ABC asserts that the contracts between appellants and BBC permit editing of the programs for commercial television in the United States. ABC argues that the scriptwriters’ agreement allows appellants the right to participate in revisions of the script only *prior* to the recording of the programs, and thus infers that BBC had unrestricted authority to revise after that point. This argument, however, proves too much. A reading of the contract seems to indicate that Monty Python obtained control over editing the script only to ensure control over the program recorded from that script. Since the scriptwriters’ agreement explicitly retains for the group all rights not granted by the contract, omission of any terms concerning alterations in the program after recording must be read as reserving to appellants exclusive authority for such revisions. . . .

Finally, ABC contends that appellants must have expected that deletions would be made in the recordings to conform them for use on commercial television in the United States. ABC argues that licensing in the United States implicitly grants a license to insert commercials in a program and to remove offensive or obscene material prior to broadcast. According to the network, appellants should have anticipated that most of the excised material contained scatological references inappropriate for American television and that these scenes would be replaced with commercials, which presumably are more palatable to the American public.

The proof adduced up to this point, however, provides no basis for finding any implied consent to edit. Prior to the ABC broadcast, Monty Python programs had been broadcast on a regular basis by both commercial and public television stations in this country without interruption or deletion. Indeed, there is no evidence of any prior broadcast of edited Monty Python material in the United States. These facts, combined with the persistent requests for assurances by the group and its representatives that the programs would be shown intact belie the argument that the group knew or should have known that deletions and commercial interruptions were inevitable.

Several of the deletions made for ABC, such as elimination of the words “hell” and “damn,” seem inexplicable given today’s standard television fare. If, however, ABC honestly determined that the programs were obscene in substantial part, it could have decided not to broadcast the specials at all, or it could have attempted to reconcile its differences with appellants. The network could not, however, free from a claim of infringement, broadcast in substantially altered form a program incorporating the script over which the group had retained control.

It also seems likely that appellants will succeed on the theory that, regardless of the right ABC had to broadcast an edited program, the cuts made constituted an actionable mutilation of Monty Python’s work. This cause of action, which seeks redress for deformation of an artist’s work, finds its roots in the continental concept of *droit morale*, or moral right, which may generally be summarized as including the right of the artist to have his work attributed to him in the form in which he created it. . . .

American copyright law, as presently written, does not recognize moral rights or provide a cause of action for their violation, since the law seeks to vindicate the economic, rather than the personal, rights of authors. Nevertheless, the economic incentive for artistic and intellectual creation that serves as the foundation for American copyright law . . . cannot be reconciled with the inability of artists to obtain relief for mutilation or misrepresentation of their work to the public on which the artists are financially dependent. Thus courts have long granted relief for misrepresentation of an artist's work by relying on theories outside the statutory law of copyright, such as contract law, *Granz v. Harris*, 198 F. 2d 5 85 (2d Cir. 1952) (substantial cutting of original work constitutes misrepresentation), or the tort of unfair competition, *Prouty v. National Broadcasting Co.*, 26 F. Supp. 265, Mas. 1939). See Strauss, "The Moral Right of the Author," 128–38, in *Studies on Copyright* (1963). Although such decisions are clothed in terms of proprietary right in one's creation, they also properly vindicate the author's personal right to prevent the presentation of his work to the public in a distorted form.

Here, the appellants claim that the editing done for ABC mutilated the original work and that consequently the broadcast of those programs as the creation of Monty Python violated the Lanham Act Sec. 43(a), 15 U.S.C. Sec. 1125(a). This statute, the federal counterpart to state unfair competition laws, has been invoked to prevent misrepresentations that may injure plaintiff's business or personal reputation, even where no registered trademark is concerned. . . . It is sufficient to violate the Act that a representation of a product, although technically true, creates a false impression of the product's origin.

We find that the truncated version at times omitted the climax of the skits to which appellants' rare brand of humor was leading and at other times deleted essential elements in the schematic development of a story line. We therefore agree with Judge Lasker's conclusion that the edited version broadcast by ABC impaired the integrity of appellants' work and represented to the public as the product of appellants what was actually a mere caricature of their talents. We believe that a valid cause of action for such distortion exists and that therefore a preliminary injunction may issue to prevent repetition of the broadcast prior to final determination of the issues.

GURFEIN, J. (concurring)

I concur with my brother Lumbard's scholarly opinion, but I wish to comment on the application of Section 43(a) of the Lanham Act, 15 U.S.C. Sec. 1125(a).

I believe that this is the first case in which a federal appellate court has held that there may be a violation of Section 43(a) of the Lanham Act with respect to a common-law copyright. The Lanham Act is a trademark statute, not a copyright statute. Nevertheless, we must recognize that the language of Section 43(a) is broad. It speaks of the affixation or use of false designations of origin or false descriptions or representations, but proscribes such use "in connection with any goods or services." It is easy enough to incorporate trade names as well as trademarks into Section 43(a) and the statute specifically applies to common law trademarks, as well as registered trademarks. Lanham Act Sec. 45, 15 U.S.C. Sec. 1127.

In the present case, we are holding that the deletion of portions of the recorded tape constitutes a breach of contract, as well as an infringement of a common-law copyright of the original work. There is literally no need to discuss whether

plaintiffs also have claim for relief under the Lanham Act or for unfair competition under New York law. . . .

The Copyright Act provides no recognition of the so-called *droit moral* or moral right of authors.

Nor are such rights recognized in the field of copyright law in the United States. . . . An obligation to mention the name of the author carries the implied duty, however, as a matter of contract, not to make such changes in the work as would render the credit line a false attribution of authorship.

So far as the Lanham Act is concerned, it is not a substitute for *droit moral* which authors in Europe enjoy. If the licensee may, by contract, distort the recorded word, the Lanham Act does not come into play. If the licensee has no such right by contract, there will be a violation in breach of contract. The Lanham Act can hardly apply literally when the credit line correctly states the work to be that of the plaintiff which, indeed it is, so far as it goes. The vice complained of is that the truncated version is not what the plaintiffs wrote. But the Lanham Act does not deal with artistic integrity. It *only* goes to misdescription of origin and the like. . . . The misdescription of origin can be dealt with, as Judge Lasker did below, by devising an appropriate legend to indicate that the plaintiffs had not approved the editing of the ABC version. With such a legend, there is no conceivable violation of the Lanham Act.

NOTE

In *Seroff v. Simon and Schuster, Inc.*, 162 N.Y.S.2d 770 (Sup. Ct N.Y. County 1957), the author of the biography *Rachmaninoff* brought a libel suit against his publisher for damage to his reputation resulting from a mistranslated French version of the book. Although the court recognized what has been called the “moral right” of an author or artist to protection from deformation or alteration of his or her work it also found that these rights can be transferred or surrendered through contract.

The parties entered into a standard publishing contract in which the author granted additional rights of translation and foreign publication. With respect to these translation rights, the relationship between author and publisher became one of joint venture because the proceeds of the sale were to be shared equally between author and publisher. The only duty assumed by the publisher was to take reasonable care in the sale of the foreign translation rights, and this duty was discharged when Simon & Schuster sold the French rights to a publisher of fine repute. The French firm acted as an independent contractor, and the author could not hold Simon & Schuster responsible for its mistranslation.

Gilliam involved a complete absence of authority to perform the cuts to which the creators objected. However, as we see in the following cases, relief may be available to the creator in varying degrees despite the presence of very broad grants of rights to alter or adapt the creator’s work.

**Chesler v. Avon Book Division, 76 Misc.2d 1048, 352 N.Y.S.2d 552
(Sup. Ct. N.Y. County 1973)**

FEIN, JUSTICE

Plaintiff, a prominent feminist psychologist, author and lecturer, is the author of a book entitled *Women and Madness*, published in 1972 in hard cover by Doubleday, Inc. (Doubleday). The work has received widespread recognition and varying critical comment. . . .

Following publication of the hard-cover edition, Doubleday [granted Avon the

paperback rights]. This motion [for preliminary injunction] is addressed to Avon's paperback edition. . . .

Plaintiff alleges that Avon's paperback edition is not a faithful reproduction of her original work as published by Doubleday. She asserts that relevant portions of the text, as well as various illustrations and footnotes, are either omitted, altered or rearranged in the Avon publication. Plaintiff charges that these changes are so extensive as to amount to "mutilation" of her work, making it so confusing and incomprehensible as to modify substantially and dilute seriously its meaning and content.

Plaintiff asserts that Avon's paperback version, in its present form, will subject her to negative criticism, damage her reputation and invalidate her book for use as an authoritative work by potential students and other serious readers. . . .

The agreement between plaintiff and Doubleday does not reserve to plaintiff any rights to edit, change or otherwise pass upon the final manuscript of the hard cover edition. . . . Despite the fact that the agreements do not give plaintiff the right to pass upon the format or text of the paperback edition, plaintiff is not powerless to prevent slipshod or truncated use of her work.

Although the authorities are sparse, it is clear that even after a transfer or assignment of an author's work, the author has a property right that it shall not be used for a purpose not intended or in a manner which does not fairly represent the creation of the author. . . .

Plaintiff relies in part on the doctrine of an author's "moral right" which she asks the court to enforce so as to protect the integrity of her work. The authorities she cites do not establish that such right is recognized in New York. . . .

However, the plaintiff's right to relief need not be bottomed upon the application of a theory of law which has not been afforded full recognition in this state. The court should not withhold appropriate relief by applying a rigid construction to causes of action or claims asserted by a plaintiff, if a right entitled to protection is shown.

An author or artist is entitled to judicial protection where there is a sufficient demonstration of "mutilation" or other serious alteration of the creator's work. . . .

The court has compared the relevant portions of the hard cover book, and the paperback edition. It cannot be seriously disputed that defendant did omit the illustrations and a number of reference sources from the paperback edition and did not follow the text of the hardcover book with respect to chapter introductions and column juxtaposition.

The court cannot pretend to be either a literary critic or a well-versed scholar in the field of the plaintiff's work. The book is obviously an original, careful and perhaps revolutionary study filled with many new and provocative insights. It is neither easy to read nor to live with.

These essential qualities inhere in both the hard cover and paperback editions. Even granting the variations in the paperback, they do not justify plaintiff's claim that Avon did not attempt to publish a faithful reproduction of her work or that the paperback edition materially alters the intent of her work.

Unfortunately for plaintiff, the agreement between plaintiff and Doubleday did not forbid alterations or omissions in her work without her consent. . . .

Nonetheless appropriate action must be taken by Avon in connection with the distribution of further paperbacks and advertising to indicate to the public and prospective purchasers of the paperback version that changes have been made involving chapter introductions, omission of illustrations and footnotes and col-

umn juxtapositions. To this extent, there has been a condensation or abridgement. Although the right to do so exists under the contracts, there is an obligation to make known to readers that the right has been exercised. This is simply telling the truth.

The motion is granted only to the foregoing extent.

**Bobbs-Merrill Co., Inc. v. New American Library, Copyright Rep.
(CCH) ¶ 25,752 (S.D.N.Y. 1985)**

BRODERICK, J.

Plaintiff's application for a preliminary injunction is granted and the defendants will be enjoined from proceeding with the publication of the four works which have been derived from the *Joy of Cooking*. . . .

Plaintiff . . . granted to New American Library an exclusive license to print, publish and sell soft cover reprint editions in multiple, single or condensed volumes and any revisions thereof.

The contract between plaintiff and defendant specifically provided that the defendant "shall have the right to publish condensations of the book." Those condensations were subject to approval by the plaintiff under the terms of the contract and that approval could not, under the contract or otherwise, be unreasonably withheld. . . .

The initial question presented is a contract question whether the four volumes which the defendant proposes to publish and sell are encompassed within the terms of the contract between the plaintiff and defendant.

I find, certainly for purposes of this application for a preliminary injunction, that they are not. They are in no sense a condensation of the copyrighted work. Each of them constitutes a selection from the copyrighted work and taken together they cannot possibly be construed as a condensation because they leave out the major portion of the copyrighted work.

It is certainly clear under the contract that the defendant has the right, subject to approval which is not to be unreasonably withheld, of publishing a condensed version of the copyrighted work in multiple volumes.

It is also the right of the defendant, under the contract, to determine whether those multiple volumes are to be published simultaneously or otherwise. The import of those provisions is that the condensation which is authorized under the contract is a condensation of the copyrighted work and not a condensation of some selected portions of that copyrighted work.

[Under paragraph 3 of the agreement] plaintiff undertakes that it will not during the term of its agreement with the defendant publish or permit to be published by anyone other than the defendant in "soft cover book form an abridgment or condensation, or adaptation or selection" of the copyrighted work.

A similar commitment was made by the plaintiff to the defendant in the 1973 version of its contract with the defendant, except that the word "selection" was excised.

Thus, in drawing up the 1982 contract and its predecessor contract plaintiff and defendant clearly had in mind the possibilities that selections might be made from the copyrighted work, that adaptations might be made of the copyrighted work, that abridgments might be made of the copyrighted work and that condensations might be made of the copyrighted work. Under the 1982 contract,

and its predecessor, the defendant was authorized only to make condensations. . . .

The four works which defendant proposes to make are not only selective but they are highly selective. The recipes which would be included in the four works would constitute a bare fraction of the recipes contained in the original work. They would omit much of the textual material in the copyrighted work. They would embody, moreover, a selection not by the authors of the copyrighted work or [their successors] but by persons who had nothing to do with the preparation of the copyrighted work.

If these four works were sold at a price of \$2.50 this would mean that members of the public who bought them would have purchased a small fraction of the materials contained in the copyrighted work for a price that was probably more than the price that would be paid for a soft cover edition of the copyrighted work.

It is certainly possible that at least some part of the purchasing public would feel shortchanged and that the impact of this perception would have deleterious effects on the reputation of the copyrighted work and on future sales of the copyrighted work either in hard cover or soft cover editions.

It is also probable that if this injunction were not granted and the defendants proceeded with their project to publish the four volumes of selections the plaintiff would run into serious difficulties with the authors' representatives since I find nothing in any documents between authors' representatives and plaintiff which authorize the publication of selections.

Beyond all this, the proposed publication by defendant will not be within the framework of any contractual relationship between plaintiff and defendant and will constitute a direct copyright infringement. In such a situation irreparable harm is to be presumed.

With respect to probability of success, in my judgment, the plaintiff will probably succeed in this action. Even if that were not so there is certainly presented a litigatable issue and the balance of hardships lean substantially towards the plaintiff

The papers indicate that the out of pocket investment by defendant thus far has been some \$11,000, which was paid to the author of the proposed four volumes. I have no doubt that there have been further expenses in-house that have been incurred by the defendant in the way of planning for ultimate publication, in the way of reediting the work done by a retained author, et cetera. It will not amount to a substantial sum.

The possible risks as far as the plaintiff is concerned are considerable. These four publications would be issued using the name the *Joy of Cooking* with no input from the authors and no input from the plaintiff and the possible ultimate financial impact on the plaintiff is immeasurable but could very possibly be quite drastic. . . .

NOTE

It is also important to bear in mind the scope of the doctrine of *droit morale*, i.e., moral rights, discussed in Gilliam, above, which is recognized in many countries of the world. There are two principal moral rights: (1) paternity, i.e., the right to be acknowledged as the creator of the work and (2) integrity, i.e., the right to have the work represented as the author created it. Thus, in *Turner Entertainment Co. v. Huston*, Court of Appeal of Versailles [France], 12/19/94, it was held that the moral rights of director/writer John

Huston and his co-writer Ben Maddow would be violated by the broadcast of a colorized version of “The Asphalt Jungle,” which Huston had deliberately shot in black-and-white at a time when films were frequently shot in color. “Huston’s renown,” the court stated, “is based on the interplay of black and white, creating an atmosphere . . . [which] would be jeopardized by colorization.” The court also noted that “John HUSTON had opposed the colorization of his works during his life.”

5.3.3 Censorship and Regulation of Content and Attendance

The issue of censorship is ever present. Private and public groups regularly attempt to regulate the content of what is to be available to the entertainment-consuming public and/or the availability of the material itself. Private efforts include the television boycott activities of Rev. Donald Wildmon and his American Family Association, the mid-1980s record-labeling pressure by the Parents’ Music Resource Center (led by Mrs. “Tipper” Gore), and similar organized pressure groups. Public efforts include obscenity prosecutions (such as the one which followed after the *Navarro* case, below), as well as legislative efforts such as the Washington statute which was held unconstitutional in the *Soundgarden* case (see Note).

Government may be on firmer ground when it comes to regulating access to venues, when acting in *loco parentis* under the police power. The Memphis and San Antonio ordinances which are noted below do not attempt to regulate the content of what is presented in live concert and stage productions; however, they limit the ability of minors to attend such presentations. As we see in the notes discussing the *City of Renton* and *Stanglin* cases, the Supreme Court will allow a considerable latitude to localities in limiting access by the very young to places and performances considered to be potentially harmful. However, government cannot condition access to public facilities upon approval of content, as we see in the *Cinevision* case.

Skywalker Records Inc. v. Navarro, 739 F. Supp. 578 (S.D.Fla. 1990).

GONZALES, J.

This is a case between two ancient enemies: Anything Goes and Enough Already.

Justice Oliver Wendell Holmes, Jr. observed in *Schenck v. United States*, 249 U. S. 47 (1919), that the First Amendment is not absolute and that it does not permit one to yell “Fire” in a crowded theater. Today, this court decides whether the First Amendment absolutely permits one to yell another “F” word anywhere in the community when combined with graphic sexual descriptions.

Two distinct and narrow issues are presented: whether the recording *As Nasty As They Wanna Be (Nasty)* is legally obscene; and second, whether the actions of the defendant Nicholas Navarro (Navarro), as Sheriff of Broward County, Florida, posed an unconstitutional prior restraint upon the plaintiffs’ right to free speech. . . .

The Plaintiffs

The plaintiff Skywalker Records, Inc. (Skywalker) is a Florida corporation headquartered in Miami, Florida. The [individual] plaintiffs . . . constitute the group known as “2 Live Crew” whose recording . . . is the subject of this lawsuit . . .

The plaintiffs have brought this action under section 1983, Title 42 of the

United States Code, which provides a federal statutory remedy for unlawful deprivations of federal rights including those liberties guaranteed under the United States Constitution. The plaintiffs also seek a declaration of their legal rights, under the Federal Declaratory Judgment Act, 28 U.S.C. 2201(a), and injunctive relief under section 2202(b) thereof. This court has previously denied the plaintiffs' motion for a preliminary injunction by *ore tenus* entered April 19, 1990. There is no prayer for money damages.

Because this is a civil action, the party with the burden of proof must prevail by a preponderance of the evidence. On the issue of obscenity, the defendant Navarro has the burden of proof. As to the prior restraint claim, however, the plaintiffs have the burden to prove, beyond a preponderance of the evidence, that the defendant's actions were unconstitutional.

It must be emphasized at the outset that this decision does not criminalize the plaintiffs' conduct, nor does it charge anyone with a crime. That is a matter for the police and the criminal courts to determine. Whether the plaintiffs are guilty of a crime can only be decided if criminal charges are brought, a trial by jury conducted, and all other due process requirements have been met. Whether *As Nasty As They Wanna Be* is criminally obscene is left for the determination of another court on another day. . . .

In deciding whether a specific work is or is not obscene, the court must apply the controlling test enunciated in *Miller v. California*, 413 U.S. 15 [1 Med.L.Rptr. 1441] (1973). To be obscene, there must be proof of all three of the following factors: (1) the average person, applying contemporary community standards [the Court defined Palm Beach, Dade and Broward Counties as the relevant community] would find that the work, taken as a whole, appeals to the prurient interest, (2) measured by contemporary community standards, the work depicts or describes, in a patently offensive way, sexual conduct specifically defined by the applicable state law, and (3) the work, taken as a whole, lacks serious literary, artistic, political, or scientific value. *Id.*; also see *Memoirs*, 383 U.S. at 419 (to be obscene, all three elements must be met and each element must be "independently" evaluated); *Penthouse International, Ltd v. McAuliffe*, 610 F.2d 1354, 1363 [5 Med.L.Rptr. 2531] (5th Cir. 1980) (same); *United States v. Various Articles of Obscene Merchandise*, 709 F.2d 132, 135 (2nd Cir. 1983) (same). . . .

The First Miller Test: Prurient Interest

This court finds, as a matter of fact, that the recording . . . appeals to the prurient interest. The Supreme Court has defined prurient as "material having a tendency to excite lustful thoughts." *Roth*, 354 U. S. at 487 n.20. Appeals only to "normal healthy sexual desires" are not adequate to meet the test. *Brockett v. Spokane Arcades, Inc.*, 472 U. S. 491, 498 (1985). The material must exhibit a "shameful or morbid interest in nudity, sex, or excretion." *Id.* (readopting definition in *Roth*, 354 U.S. at 487 n.20).

Nasty appeals to the prurient interest for several reasons. First, its lyrics and the titles of its songs are replete with references to female and male genitalia, human sexual excretion, oral-anal contact, fellatio, group sex, specific sexual positions, sado-masochism, the turgid state of the male sexual organ, masturbation, cunnilingus, sexual intercourse, and the sounds of moaning. Florida's Legislature has provided a valuable source of evidence in the form of its obscenity statutes for determining what is sexual conduct. The initial provision is section 847.001(11), Florida Statutes, which defines "sexual conduct" to include "actual

or simulated sexual intercourse, deviate sexual intercourse, . . . masturbation, . . . sadomasochistic abuse; [or] actual lewd exhibition of the genitals.” Section 847.001(2), Florida Statutes, defines deviate sexual intercourse as sexual conduct between unmarried persons involving contact between the penis and the anus, the mouth and the penis, or the mouth and the vulva. Section 847.001(8) defines sadomasochistic abuse as satisfaction from sadistic violence derived by inflicting harm upon another. These definitions cover most, if not all, of the sexual acts depicted in *As Nasty As They Wanna Be*.

Furthermore, the frequency and graphic description of the sexual lyrics evinces a clear intention to lure hearers into this activity. The depictions of ultimate sexual acts are so vivid that they are hard to distinguish from seeing the same conduct described in the words of a book or in pictures in periodicals or films.

It is also noteworthy that the material here is music. It is true that it would be difficult, albeit not impossible, to find that mere sound without lyrics is obscene. Music is sufficiently subjective that reasonable persons could disagree as to its meaning. But, the focus of the *Nasty* recording is its lyrics. Based on the evidence at trial, music of the “rap” genre focuses upon verbal messages accentuated by a strong beat. 2 Live Crew itself testified that the *Nasty* recording was made to be listened and danced to. The evident goal of this particular recording is to reproduce the sexual act through musical lyrics. It is an appeal directed to “dirty” thoughts and the loins, not to the intellect and the mind.

The court has also given some, but not great, weight to the plaintiffs’ commercial motive. Of course, the fact that the plaintiffs made a profit from the public distribution of the *Nasty* recording is not relevant in determining obscenity. See *Ginzburg v. United States*, 383 U.S. 463, 474 [1 Med.L.Rptr. 1409] (1966). However, the court can consider the manner in which the material was distributed and promoted to determine if the “leer of the sensualist” permeates the work. *Id.* at 465–66, 468, 475–76. In *Ginzburg*, the court found that publishers of certain magazines and books had directed their advertising in such a way as to commercially exploit erotica solely for the sake of their prurient appeal. *Id.* at 466. For example, the advertisements sent to potential customers “stressed the sexual candor of the respective publications, and openly boasted that the publishers would take full advantage of what they regarded [as] an unrestricted license allowed by law in the expression of sex and sexual matters.” *Id.* at 469. The court went on to note that, “the deliberate representation of petitioners’ publications as erotically arousing, for example, stimulated the reader to accept them as prurient; he looks for titillation not for saving intellectual content.” *Id.* at 470.

Consideration of the creator’s intent to appeal to the prurient interest is still a valid consideration today, even after *Miller v. California*. See *Splawn v. California*, 431 U. S. 595 [2 Med.L.Rptr. 188 I] (1977); *Pinkas*, 436 U.S. 293 [3 Med.L.Rptr. 2329] (1978).

The record at trial indicates that the plaintiffs’ commercial exploitation of this work was done in a manner calculated to make a salacious appeal. The title of the recording . . . in addition to the names of many of the songs and the illustration on the recordings’ insert certainly fit within the confines of the *Ginzburg* case for materials “look[ing] for titillation.”

One of the more interesting points suggested by the evidence at trial, but not dwelt on by the defendant, was that 2 Live Crew made two apparently identical

albums with the only difference being the sexually explicit lyrics. The plaintiffs' own expert, John Leland, testified that the *Nasty* recording, without the salacious lyrics, would not have been expected to sell more than 500,000 copies nationwide. To date, the *Nasty* version has sold 1.7 million copies. The identical recording sans sexual lyrics (*Clean*) has sold only 250,000 copies. The difference between the actual sales of the two recordings can reasonably be found to have been motivated by the "leer of the sensualist." The plaintiffs cannot claim they needed the vulgar lyrics to promote their message since the plaintiffs' own experts testified that music from neither the "rap" or "hip-hop" genre does not require the use of such language.

Finally, the plaintiffs rely upon testimony, both lay and expert, that the *Nasty* recording did not actually physically excite anyone who heard it and indeed, caused boredom after repeated play. However, based on the graphic deluge of sexual lyrics about nudity and sexual conduct, this court has no difficulty in finding that [*Nasty*] appeals to a shameful and morbid interest in sex.

The Second Miller Test: Patently Offensive

The court also finds that the second element of the Miller test is satisfied in that the *Nasty* recording is patently offensive. This is a question of fact, which must be measured by contemporary community standards. See *Miller*, 413 U.S. at 30.

It is quite true that not all speech with sex as its topic is obscene. See *Roth*, 354 U. S. at 487. [*Nasty*] is another matter.

The recording depicts sexual conduct in graphic detail. The specificity of the descriptions makes the audio message analogous to a camera with a zoom lens, focusing on the sights and sounds of various ultimate sex acts. Furthermore, the frequency of the sexual lyrics must also be considered. With the exception of part B on Side 1, the entire *Nasty* recording is replete with explicit sexual lyrics. This is not a case of subtle references or innuendo, nor is it just "one particular scurrilous epithet" as in *Cohen v. California*, 403 U.S. 15,22 (1971).

... States may outlaw certain portrayals of sexual conduct and nudity if they constitute "hardcore pornography." See *Jenkins v. Georgia*, 417 U.S. 153 [1 Med.L.Rptr. 1504] (1974). In *Jenkins*, the Supreme Court reversed a conviction for distribution of the film "Carnal Knowledge" which contained scenes of a woman with a bare midriff and several lovemaking sessions. *Id* at 161. This depiction was held by the court to not be within the hardcore category. As noted by the court,

While the subject matter of the picture is, in a broader sense, sex, and there are scenes in which sexual conduct including "ultimate sexual acts" is to be understood to be taking place, the camera does not focus on the bodies of the actors at such times. There is no exhibition whatever of the actors' genitals, lewd or otherwise, during these scenes. There are occasional scenes of nudity, but nudity alone is not enough to make material legally obscene under the *Miller* standards. *Id* at 161.

In *Miller*, the Supreme Court gave two examples of the type of conduct subject to state regulation: "(a) Patently offensive representations or descriptions of ultimate sexual acts, normal or perverted, actual or simulated. (b) Patently offensive representation or descriptions of masturbation, excretory functions, and lewd exhibition of the genitals." 7d, 413 U. S. at 25. The conduct described in the *Nasty* recording is certainly within the scope of the Florida statutes. The state law, of

course, is not dispositive on the question of whether this particular community would be patently offended, but it is entitled to significant weight. *Smith*, 431 U.S. at 307–08.

While the above facts are sufficient to support a finding that this material is patently offensive, there are additional considerations that support such a finding. First, the *Nasty* lyrics contain what are commonly known as “dirty words” and depictions of female abuse and violence. It is likely that these offensive descriptions would not of themselves be sufficient to find the recording obscene. [Citations omitted.] When these terms are used with explicit sexual descriptions, however, they may be considered on the issue of patent offensiveness. Secondly, the material here is music which can certainly be more intrusive to the unwilling listener than other forms of communication. Unlike a video tape, a book, or a periodical, music must be played to be experienced. A person can sit in public and look at an obscene magazine without unduly intruding upon another’s privacy; but, even according to the plaintiffs’ testimony, music is made to be played and listened to. A person laying on a public beach, sitting in a public park, walking down the street or sitting in his automobile waiting for the light to change is, in a sense, a captive audience. While the law does require citizens to avert their ears when speech is merely offensive, they do not have an obligation to buy and use ear plugs in public if the state legislature has chosen to protect them from obscenity.

Finally, in determining whether the *Nasty* recording is patently offensive, it is again proper to consider the plaintiffs’ commercial exploitation of sex to promote sales. As noted by the Supreme Court in *Ginzburg v. United States*, 383 U. S. 463, 470 [Med.L.Rptr. 1409] (1966), representations of a publication as erotically arousing “would tend to force public confrontation with the potentially offensive aspects of the work; the brazenness of such an appeal heightens the offensiveness of the publications to those who are offended by such material.” Such is the case here, as already discussed. Again, while this factor has not been given great weight, it is entitled to consideration.

The Third Miller Test: Social Value

The final factor under *Miller* is whether the *Nasty* recording, taken as a whole, lacks serious literary, artistic, political, or scientific value. This factor is not measured by community standards. The proper inquiry is whether a reasonable person would find serious social value in the material at issue. See *Pope v. Illinois*, U.S., 107 S.Ct. 1918, 1921 Med. L. Rptr. 1001] (1987). The plaintiffs correctly note that the value of a work can pass muster under *Miller* if it has serious merit, measured objectively, even if a majority of the community would not agree.

As a preliminary matter, it is again important to note what this case is not about. Neither the “Rap” or “Hip-Hop” musical genres are on trial. The narrow issue before this court is whether the [*Nasty*] recording . . . is legally obscene.

This is also not a case about whether the group 2 Live Crew or any of its other music is obscene. The third element of the *Miller* test focuses upon the social value of the particular work, not its creators. The fact that individuals of whom we approve hold objectionable ideas or that people of whom we do not approve hold worthy ideas does not affect judicial review of the value of the ideas themselves.

The Philistines are not always wrong, nor are the guardians of the First

Amendment always right. This court must examine the *Nasty* recording for its content; the inquiry is objective, not *ad hominem*.

Finally, this court's role is not to serve as a censor or an art and music critic. If the *Nasty* recording has serious literary, artistic, political, or scientific value, it is irrelevant that the work is not stylish, tasteful, or even popular.

The plaintiffs themselves testified that neither their music nor their lyrics were created to convey a political message.

The only witness testifying at trial that there was political content in the *Nasty* recording was Carlton Long, who was qualified as an expert on the culture of black Americans. This witness first stated that the recording was political because the 2 Live Crew, as a group of black Americans, used this medium to express themselves. While it is doubtless true that *Nasty* is a product of the group's background, including their heritage as black Americans, this fact does not convert whatever they say, or sing, into political speech. Professor Long also testified that the following passages from the recording contained political content: a four-sentence phrase in the song "Dirty Nursery Rhymes" about Abraham Lincoln, the word "man" in the Georgie Porgie portion of the same song, and the use of the device of "boasting" to stress one's manhood. Even giving these isolated lyrics the meaning attributed by the expert, they are not sufficient in number or significance to give the *Nasty* recording, as a whole, any serious political value.

In terms of science, Professor Long also suggested that there is cultural content in 2 Live Crew's recording which rises to the level of serious sociological value. According to this witness, white Americans "hear" the *Nasty* recording in a different way than black Americans because of their different frames of references. Long identifies three cultural devices evident in the work here: "call and response," "doing the dozens" and "boasting." The court finds none of these arguments persuasive.

The only examples of "call and response" in the *Nasty* recording are portions where males and females yell, in repetitive verse, "Tastes Great-Less Filling" and, in another song, assail campus Greek-letter groups. The phrases alone have no significant artistic merit nor are they examples of black American culture. In the case of "Tastes Great—Less Filling," this is merely a phrase lifted from a beer commercial.

The device of "doing the dozens" is a word game composed of a series of insults escalating in their satirical content. The "boasting" device is a way for persons to overstate their virtues such as sexual prowess.

While this court does not doubt that both "boasting" and "doing the dozens" are found in the culture of black Americans, these devices are also found in other cultures. "Doing the dozens" is commonly seen in adolescents, especially boys, of all races. "Boasting" seems to be part of the universal human condition.

Professor Long also cited to several different examples of literary devices such as rhyme and allusion which appear in *Nasty*, and points to the song title "Dick Almighty" as an example of the literary device of personification. This, of course, is nonsense regardless of the expert's credentials. "A quotation from Voltaire in the fly leaf of a book," noted the Supreme Court in *Miller*, "will not constitutionally redeem an otherwise obscene publication." 413 U.S. at 25 n.7 (quoting *Kois v. Wisconsin*, 408 U.S. 229, 231 (1972)).

Prior to *Miller*, the government had to demonstrate that a work was utterly without redeeming social value to be judged obscene. See *Memoirs*, 383 U. S. at 419. The present test is less stringent, only requiring proof of an absence of

serious social worth. This leads to the plaintiffs' strongest argument: that the *Nasty* recording has serious artistic value. This category of social worth is broad enough to include the value contributed by the political, literary, and cultural aspects of the particular work.

The plaintiffs stress that the *Nasty* recording has value as comedy and satire. Certainly, people can and do laugh at obscenity. The plaintiffs point to the audience reaction at trial when the subject recording was played in open court. The audience giggled initially, but the court observed that after the initial titillation, it fell silent.

In a society where obscenity is forbidden, it is human nature to want to taste forbidden fruit. It is quite another thing to say that this aspect of humanity forms the basis for finding that *Nasty* has serious artistic value. Furthermore, laughter can express much more than enjoyment and entertainment. It is also a means of hiding embarrassment, concealing shame, and releasing tension. The fact that laughter was only heard at the time that the first song of the tape was played is probative on what the audience's outbursts really meant. It cannot be reasonably argued that the violence, perversion, abuse of women, graphic depictions of all forms of sexual conduct, and microscopic descriptions of human genitalia contained on this recording are comedic art.

The *Nasty* recording is not comedy, but is first and foremost, music. Initially, it would appear very difficult to find a musical work obscene. As noted by the American Civil Liberties Union, the meaning of music is subjective and subject only to the limits of the listener's imagination.

Music nevertheless is not exempt from a state's obscenity statutes. Musical works are obscene if they meet the *Miller* test. Certainly it would be possible to compose an obscene oratorio or opera and it has probably been done.

The plaintiffs claim that this case is novel since it seeks to determine whether music can be obscene. The particular work here, although belonging to the general category of music, however, is to be distinguished from a purely instrumental work, or other more common recordings with a fairly equal emphasis on music and lyrics. The focus of the *Nasty* recording is predominately on the lyrics. Expert testimony at trial indicates that a central characteristic of "rap" music is its emphasis on the *verbal* message. Rhythm is stressed over melody, not for its own sake, but to accentuate the words of the song. The pounding beat and the presence of near continuous lyrics support this conclusion. 2 Live Crew's music is explicitly clear as to its message. Although music and lyrics must be considered jointly, it does not significantly alter the message of the *Nasty* recording to reduce it to a written transcription. The Supreme Court's decision in *Kaplan v. California*, 413 U. S. 115 (1973), is applicable here. The court held that an expression by words alone, albeit in a written form, can be legally obscene even if there are no accompanying pictorial depictions. *Id.* at 118–119. The case at bar is an extension of the law to the extent that words, as lyrics in music, can be obscene.

The key to judging the *Nasty* recording is to consider it as a whole. 2 Live Crew has "borrowed" components called "riffs" from other artists. Taking the work in its entirety, the several riffs do not lift *Nasty* to the level of a serious artistic work. Once the riffs are removed, all that remains is the rhythm and the explicit sexual lyrics which are utterly without any redeeming social value.

Obscenity is not a required element for socially valuable "rap" or "hip-hop" music. 2 Live Crew itself proved this point by the creation of its *Clean* recording. . . .

One of the plaintiffs' expert witnesses testified at trial that material is art if it causes a reaction in the audience perceiving it. If that reaction is an appeal to the prurient interest in a patently offensive way, and if the material lacks serious literary, artistic, political or scientific, the law does not call that art—it calls it obscenity and when so proven beyond a reasonable doubt is a crime in Florida.

Obscenity? Yes!

The [*Nasty*] recording . . . taken as a whole, is legally obscene.

The court so finds by a preponderance of the evidence although the standard of proof presents no real issue.

The court also finds [*Nasty*] to be legally obscene under the *Miller* test by clear and convincing evidence, which standard the plaintiffs maintain is the correct burden of proof . . .

NOTES _____

1. The Eleventh Circuit subsequently reversed, holding that the trial judge had impermissibly proceeded on the basis of his own subjective assessment of community standards rather than on the basis of objective evidence. *Skywalker Records, Inc. v. Navarro*, 968 F.2d 134 (11th Cir.), cert. denied, 506 U.S. 1022 (1992).

2. Following the decision of the district court in the *Navarro* case, a Florida jury subsequently found Skywalker Records, Inc., and 2 Live Crew not guilty of criminal obscenity charges that were brought against them with respect to the *Nasty* record. However, a Miami record store owner was found guilty of violating the obscenity statute in selling the *Nasty* record and fined \$1,000.00.

3. In the next election after these proceedings, Sheriff Nick Navarro was defeated for re-election.

4. Washington's "Erotic Sound Recordings" statute (House Bill 2554, Laws of 1992, ch. 5, codified as RCW 9.68.050, .060, .070 and .090, also known as the "Erotic Music Statute") was declared unconstitutional on its face in *Soundgarden v. Eikenberry*, 123 Wash.2d 750, 871 P.2d 1050, 1994 Wash. LEXIS 255 (1994) and its enforcement was permanently enjoined. Under the statute, a county prosecuting attorney could apply to the local superior court for a hearing to establish whether a particular publication or recording was "erotic material" [which was defined by the statute in the same language which had been upheld by the Supreme Court in obscenity cases] and, if the judge so found, the court was to order that an "adults only" label be placed on the cover in 48-point bold type on "all copies of such erotic publication or sound recording sold or otherwise distributed in the state of Washington." Moreover, "[a]ll dealers and distributors are hereby prohibited from displaying erotic publications or sound recordings in their store windows, on outside newsstands on public thoroughfares, or in any other manner so as to make an erotic publication or the contents of an erotic sound recording readily accessible to minors." Comparable provisions were included for motion pictures. Failure to comply with the order would subject the local dealer to contempt proceedings. However, the statute did not stop there: "Any person who, after the court determines material to be erotic, sells, distributes, or exhibits the erotic material to a minor" was liable to fine and/or imprisonment.

The court observed that "[u]nchallenged affidavits and declarations in the record indicate that shopkeepers have already instituted policies to prevent sale to minors of even recordings which have not been adjudged to be erotic, but which might possibly be considered erotic, including requiring proof of age or simply canceling orders for the recordings from distributors or manufacturers. Those shopkeepers claim they are already experiencing loss of revenue. Artists claim they are concerned that, in order to insure that

their music will not violate the statute, they must curtail their protected speech and expression or risk loss of sales because of censorship by shopkeepers or the State.”

“It is true,” the court stated, “That under the statute no prosecution can take place until after material has been determined by the court to be ‘erotic.’ But only one dealer or distributor is notified of the initial hearing [which, under the statute, would be held on only 5 days’ notice.] Yet that initial determination by the court applies prospectively and is binding upon all dealers and distributors in the entire state of Washington. That determination thus becomes state-wide legislation which affects the rights of nonparties in violation of due process. . . . [Moreover,] under the plain language of the statute the sale or distribution need only be to retailers or distributors and need not be to minors for the prosecuting attorney to take action, in effect censoring a recording prior to its publication. [However, e]ven if that language does constitute a prior restraint, it would be valid at least as applied to minors because the statute regulates material which is obscene (erotic) to minors, and prior restraints of obscenity are constitutionally permitted when minors are affected. . . . But that protection can only be provided by constitutional means . . . The Washington statute does not require knowledge of the character of the material on the part of the seller, distributor, or exhibitor before subjecting any of them to criminal prosecution. This is a violation of due process [as would be the ability of the state to use the “erotic material” determination made by the judge in the initial hearing in a later criminal prosecution, instead of proving it beyond a reasonable doubt directly to the jury in the criminal proceedings. A] two-stage procedure which imposes consequences from a nonjury civil proceeding upon a defendant at a subsequent criminal proceeding, when that defendant was not a party in the civil proceeding and is deprived of the opportunity to litigate certain issues, violates constitutional due process . . . The statute constitutes prior restraint upon protected speech as applied to adults. It is overbroad because it reaches conduct which is constitutionally protected. It violates due process by not providing sufficient time for preparation of an adequate defense at the initial hearing. It violates due process because all dealers and distributors are subject to civil contempt proceedings for violation of an injunction even though they may not have been parties in the initial hearing and even though they may not have notice of the court’s determination that a material is erotic. It further violates due process by imposing criminal penalties without providing sufficient notice of which materials have been adjudged to be “erotic,” and by not providing that a defendant must have “knowledge” that materials sold are erotic.

5. Municipalities have adopted ordinances aimed at preventing minors from attending concerts or other presentations deemed harmful to them by the authorities. For example, see *City of San Antonio, Texas. Ordinance 61,850* (Effective November 14, 1985), which provides that “[n]o person having control over a City-owned facility [a definition which includes anyone who may produce, direct, participate or perform] shall intentionally, knowingly, or recklessly allow or permit a child under the age of fourteen (14) years to enter or to remain within a leased area in a City-owned facility within one hour before or at any time during a performance is scheduled, if such person (1) knows, or (2) has knowledge of sufficient facts and circumstances from which a reasonable person would know that the performance is or will be a performance obscene as to a child, unless such child is admitted with a parent or legal guardian.” The ordinance targets “musical, dramatic or theatrical works, together with incidental and related expressive activity which are vulgar, profane and repulsive to society generally, and which in certain instances where children are present as observers would appeal primarily to the prurient interest of such children (in particular and without limitation, an interest in sadistic and masochistic sexuality, rape, incest, bestiality, pedophilia, pederasty, necrophilia, and abnormal or violent exhibitionism) in sex, and which taken as a whole, lack any serious artistic or literary or social merit as to such children and which further violate generally prevailing standards in the adult community as to the suitability of such material or performances for observation by children.” . . . A producer or director who knows or should know that a performance is or will be obscene as to a minor must include an advertising disclaimer (which

is also binding on parties carrying the advertising): “This performance may contain material not suitable for children without supervision. Parental discretion is advised. No child under the age of fourteen (14) will be admitted without a parent or legal guardian.” An affirmative defense is provided where “the person having control over a City-owned facility attempts to ascertain the true age of a child seeking entrance to a performance obscene as to a child by requiring production of a birth certificate, school record, including identification showing the child’s age or other school record indicating the child to be enrolled in eighth (8th) grade or higher, and not relying solely on oral allegations or apparent age of the child.” Violations are punishable by fines of \$50 to \$200.

A slightly different approach is found in *City of Memphis Ordinance No. 3957*. This ordinance defines material as “harmful to minors” as having that quality of any description or representation, in whatever form, during a live performance, of nudity, sexual excitement, sexual conduct, excess violence [defined as “the depiction of acts of violence in such a graphic and/or bloody manner as to exceed common limits of custom and candor, or in such a manner that it is apparent that the predominant appeal of the material is portrayal of violence for the sake of violence”], or sadomasochistic abuse when it: (A) Predominantly appeals to the prurient, shameful or morbid interest of minors [“minors” being defined as persons under 18]; (B) Is patently offensive to prevailing standards in the adult community as a whole with respect to what is suitable material for minors, and (C) Is utterly without redeeming social importance for minors.” In addition to producers, directors, and performers, this ordinance covers parents. Moreover, it prohibits minors from knowingly purchasing a ticket or attempting to gain admission to a prohibited event, or presenting false identification to do so.

6. In *City of Renton v. Playtime Theatre, Inc.*, 475 U.S. 41 (1986), the Supreme Court upheld (by a 7 to 2 vote, with Justices Brennan and Marshall dissenting) an ordinance prohibiting adult motion picture theaters from locating within 1,000 feet of any residential zone, church, park, or school. Playtime had claimed that the ordinance violated Playtime’s rights under the First and Fourteenth Amendments. The Court stated that the ordinance was content-neutral and dealt only with the time, place, and manner of performance, serving a substantial government interest in preserving the quality of urban life (citing *Young v. American Mini Theatres, Inc.*, 427 U.S. 50 [1976]). Although the city of Renton had not itself undertaken studies of the impact that such theatres would have on Renton itself, the Court stated that Renton was entitled to refer to the experience of other neighboring cities, as long as that experience was reasonably believed to be relevant to Renton’s own situation. Additionally, Renton did not attempt to bar all entertainment of the type offered by Playtime, having left more than 5 percent of the entire area of the city open to such uses. Similarly, the Tennessee Adult-Oriented Establishment Act, which limits the hours and days during which sex shops may remain open and which prohibits private video booths for live entertainment and/or the viewing of sexually-explicit videos, has been upheld in *Richland Bookmart v. Nichols*, 137 F.2d 435, 1998 U.S.App.LEXIS 3161 (6th Cir. 1998) (*rehearing denied* April 23, 1998). Although not content-neutral, the act would serve the substantial government interest in reducing crime, deterring prostitution, and preserving the nature of surrounding neighborhoods.

7. The foregoing San Antonio and Memphis ordinances and *City of Renton* offer two potentially powerful tools to localities seeking to limit the degree to which their younger citizens may be exposed to music and/or films that their elders consider objectionable. As of this writing, the ordinances have not been challenged. However, it is not difficult to envision a scenario under which (given the Supreme Court’s reasoning with respect to the absence of studies in *Renton*) such ordinances can effectively leapfrog city-to-city across the country, causing potential problems for promoters, as well as producers and exhibitors of films.

8. In *City of Dallas v. Stanglin*, 490 U.S. 19, 109 S.Ct. 1591(1989), the Supreme Court upheld a local ordinance establishing a category of “Class E” dance halls, admission to which was restricted to persons between 14 and 18 years of age. Since such a dance hall

might experience attendance of as many as 1,000 teenagers on a given night, such experiences did not engage the “associational” values of the First Amendment sufficiently to override the city’s interest in protecting its teenagers from corrupting influences. (The decision was 7–0, with Justices Stevens and Blackmun concurring.)

9. While courts accord considerable deference to governmental authorities acting in loco parentis, it is not limitless. In *Eclipse Enterprises, Inc. v. Gulotta*, 134 F.3d 63 (2d Cir. 1997), Nassau County Local Law 11–1992, which prohibited the sale to minors of trading cards depicting “heinous” crimes was held unconstitutional. The county had not established that such cards were harmful to minors and the law was not narrowly tailored to address a compelling state interest. And Section 505 of the Telecommunications Act of 1996, limiting the hours during which sexually explicit material could be transmitted via cable without “scrambling” (FCC regulations had limited such transmissions to between 10 P.M. and 6 A.M.) was invalidated in *United States v. Playboy Entertainment Group*, 2000 U.S. LEXIS 327 (2000). For additional discussion of censorship in the online context, see Sec. 12.2.

In the preceding cases and ordinances, the public authority was acting in loco parentis. Although reference is made to content in the ordinances involved, the standards employed have been upheld repeatedly when expressed with sufficient particularity, especially when applied for the protection of minors. However, courts are suspicious of any attempt to regulate content where adults are concerned. This is illustrated clearly in the following case.

Cinevision v. City of Burbank, 745 F.2d 560 (9th Cir. 1984), cert. denied, 471 U.S. 1054 (1985)

[The City authorized Cinevision to promote summer concerts at City-owned Starlight Bowl for a five-year period. The contract required Cinevision to submit, in advance, “a description of the nature and content of each show or performance and the names of the participants,” and reserved to the City “the right to disapprove and cancel any show or performance which has the potential of creating a public nuisance or which would violate any State law or City ordinance.” In 1977, Richman, an opponent of the concerts, was elected to the City Council. Despite his opposition, the concerts continued through 1977 and 1978. In 1979, however, objecting to “hard rock” music and the potential attraction of narcotics users to the community, the Council rejected 6 out of 8 proposed concerts. Cinevision sued the City and Councilman Richman under 42 U.S.C. § 1983, claiming a violation of its civil rights. The jury awarded Cinevision \$20,000 damages against the City and Richman jointly, and an additional \$5,000 against Richman for his “willful, wanton, malicious or oppressive conduct.” The district court also awarded Cinevision \$119,288 attorneys’ fees.]

REINHARDT, CIRCUIT JUDGE

... Other circuits and district courts presented with the issue have held, and we agree, that music is a form of expression that is protected by the first amendment. Therefore, “[i]f the [City Council] passed an ordinance forbidding the playing of rock and roll music . . . they would be infringing a First Amendment right. . . . even if the music had no political message—even if it had no words—and the defendants would have to produce a strong justification for thus repressing a form of speech.” *Reed v. Village of Shorewood*, 104 F.2d 943,950 (7th Cir. 1983). . . .

The City suggests that because Cinevision does not seek to “express” its views,

it has no first amendment right to promote concerts for profit. However, even though concert promoters generally promote concerts for profit, they still enjoy the protections of the first amendment. See, e.g., *Joseph Burstyn, Inc. v. Wilson*, 343 U.S. 495, 501–02. . . . In fact, promoters of theatrical productions and concerts have previously succeeded in challenging a municipality’s denial of access to governmentally owned property. See *Southeastern Promotions Ltd. v. Conrad*, 420 U.S. 546 (1975). . . . Thus, under the first amendment, there clearly are rights to promote protected expression for profit—including musical expression. As a promoter of protected musical expression, Cinevision enjoys first amendment rights. . . .

. . . To have access to live musical expression, the public must necessarily rely on concert promoters to make arrangements for musicians to perform. The role of the promoter in ensuring access to the public is at least as critical as the role of the bookseller or theater owner: in fact, it would seem to be far easier for an individual to obtain printed material or a film on his or her own than to arrange personally for live entertainment by a nationally known musical group. Thus, a concert promoter, like a bookseller or theater owner, is a type of “clearing-house” for expression. Moreover, as a practical matter, a promoter, like Cinevision, is in a far better position than concert-goers or individual performers to vindicate first amendment rights, and ensure public access to live musical entertainment.

The City’s argument that Cinevision enjoyed no first amendment right to promote the six rejected concerts is based in large part on the fact that an executive officer of Cinevision did not know specifically what songs each performer would sing; therefore, the City argues, Cinevision, by promoting the concerts was not engaging in “expression” protected by the first amendment. As we have noted, however, theater owners and booksellers, even if they are not “expressing” themselves, further a first amendment interest in making protected materials available to the public. Moreover, it would be anomalous to require a promoter to know exactly what songs an entertainer will sing before any first amendment rights attach—just as it would be to require a bookseller to read all of the books he plans to sell or a theater-owner to view all of the movies he intends to show. In fact, not even the City Council members knew the songs that each proposed performer would sing. Rather than objecting to any particular songs, various Council members objected to certain types of music, labelling all music of which they disapproved as “hard rock.”

We recognize, as the Council members obviously did, that the musical expression of some performers reflects a particular political view and that some performers may, apart from their music, represent a particular ideology or way of life. However unsophisticated or ill-informed the members of the City Council may have been regarding current forms of popular music, it is difficult to believe that they would not have been aware of the differences between Jackson Browne and Donnie and Marie Osmond, or the differences between Pete Seeger and Pat Boone, or Joan Baez and Merle Haggard. It is hardly necessary to know what specific songs these artists will sing in order to know that their very appearances carry differing political or social messages. In any event, constitutional safeguards are not applicable only to musical expression that implicates some sort of ideological content. Rather, all-political and non-political-musical expression, like other forms of entertainment, is a matter of first amendment concern. Consequently, promoters of musical expression of all types enjoy the protections of the first amendment. . . .

Governmental regulation of a place determined to be a public forum is limited by the constraints of the first amendment. . . . As the City correctly points out, public ownership of the Bowl does not compel the conclusion that it is a public forum. [By allowing concerts] by a variety of performers, the City transformed publicly owned property into a public forum for expressive activity, even if the expressive activity is promoted by a single entity. Moreover, assuming that, as the City claims, the Starlight Bowl is “remote, fenced, seldom used, and locked when not in use,” that does not affect its status as a public forum. . . .

. . . Although the City was not required to open the Starlight Bowl and is not required to leave it open indefinitely, it cannot, absent a compelling governmental interest, open the forum to some and close it to others solely in order to suppress the content of protected expression. . . . Here, although the prohibitions against the concerts are content-related, there are neither compelling state interests that justify the City’s denial of access to the Starlight Bowl, nor narrowly drawn standards designed to prevent arbitrary decision-making. . . . The contract in this case provides an overbroad standard for the City Council’s disapproval of the proposed concerts . . . [and] does not adequately limit the discretion of the City Council in approving or disapproving the proposals. Thus, it fails to meet the requirements of the first amendment. Objections to the proposed concert centered on the content of the music—it was “hard rock” music that the City Council wanted to exclude from the Starlight Bowl. . . . Given the evidence before us, we must reject the City of Burbank’s suggestion that “hard rock” concerts are a per se public nuisance justifying their exclusion from the Starlight Bowl because of their content. In addition, a general fear that state or local narcotics or other laws will be broken by people attending the concerts cannot justify a content-based restriction on expression. Normally, law enforcement officers can deal adequately and effectively with unlawful activity of that nature at the time it occurs. That is a proper exercise of the police power; censorship is not. Even if the performers planned to advocate unlawful, subversive activities, which the City has not alleged here, that expression could only be suppressed if it were directed at producing, and were likely to produce, imminent lawless action. Moreover, there is reason to question the extent to which any good faith concern over problems relating to law enforcement (irrelevant as those concerns may be for purposes of the first amendment) played a serious part in the Council’s determinations. The facts surrounding the Todd Rundgren concert illustrate this point. Even though the members of the Police Commission who made a recommendation concerning the proposed concert suggested that the City Council approve the concert, the City Council disapproved it. The pre-concert investigation report prepared by the Police Department expressly stated that there had been “no problems” at any of Rundgren’s concerts in other cities. In fact, in 1976, Todd Rundgren performed in the Starlight Bowl and, according to the Chief of Police, there were no security or traffic congestion problems; “[t]he crowd, for the most part, was orderly, and there were no citizen complaints.” Similarly, although there was no evidence whatsoever that there had been any problems at his previous concerts, the City Council rejected a proposed Jackson Browne concert. We recognize, of course, that a municipality may have legitimate concerns about the collateral effects of concerts in an amphitheater like the Starlight Bowl: a municipality has a significant interest in controlling the noise level of a concert, crowd overflow, and traffic congestion. For that reason, content-neutral, time, place and manner regulations that are narrowly drafted to further

such significant governmental interests do not violate the first amendment. For example, a City may under some circumstances regulate the decibel level of concerts or place time restrictions on concerts when music is performed above a certain volume. However, there are no time, place, or manner regulations involved here. . . .

Despite our holding that the City violated Cinevision's first amendment rights, we do not mean to suggest that a municipality that wishes to dedicate a facility to the promotion of drama or opera is powerless to do so, or that a governmental entity can never regulate access to a forum on the basis of the type of entertainment to be presented. The dedication of a museum to the exhibition of contemporary art, a theater to the production of Shakespeare's works or the performance of plays intended for children, or an auditorium to ballet or other forms of dance, may in some instances encourage diversity of entertainment and promote, rather than abridge, first amendment values. A court must, however, scrutinize closely a government's dedication of a forum to a particular type of expression and fully consider a number of factors before deciding the constitutionality of such an action [and] review with particular care any claim that the governmental body is actually attempting to suppress controversial, political, or other forms of expression, rather than attempting to promote certain limited forms of entertainment. Any willful or purposeful effort by a municipality to suppress protected expression clearly conflicts with the first amendment. . . .

Once it is clearly established that the purpose of the conduct is not to suppress protected expression, the reviewing court should consider the category of expression that a municipality has dedicated the use of a public forum to, how that category is defined, and what standards will be used to determine whether particular performances or works fall within that category. The exclusive use of an auditorium or theater for a form of expression that is well defined, historically recognized, readily identifiable, and susceptible to objective classification is likely to be found permissible (e.g., opera, ballet, Shakespeare, 19th Century French dramatists). However, the more subjective the standard used, the more likely that the category will not meet the requirements of the first amendment; for, when guided only by subjective, amorphous standards, government officials retain the unbridled discretion over expression that is condemned by the first amendment.

The way in which a public forum dedicated to a certain form of expression is operated may also be significant in determining the constitutionality of the limitation. When decisions about what forms of expression will be permitted or which individuals will be allowed to express themselves in a public forum are made by a body like the City Council, those decisions must be scrutinized most carefully—if only because such a body is at all times, by its very nature, the object of political pressures. . . . To the extent the decision-maker is removed from the heat of the political process, or is free to make an independent judgment, the constitutional problem is less acute. For example, the selection of exhibits by a professionally trained museum curator is far less likely to result in first amendment questions than the veto of proposed museum exhibits by a group of local elected officials. Similarly, a decision by a professional concert promoter, or even a civil service employee with particular training or expertise in the field of entertainment or facilities management, will have a better chance of surviving first amendment scrutiny than a similar decision made by a mayor or other elected officials. Another relevant factor in determining whether a public forum

may be devoted exclusively to one form of expression is whether other forums are available for the presentation of that form of expression. The fact that there are few, if any, alternative forums for a particular form of expression would tend to support the constitutionality of the municipality's action; restricting the use of the forum would under those circumstances provide the public with access to expression that it would not otherwise have.

Finally, the nature of the previous use of a forum may also be a relevant consideration. Specifically, if a facility was previously open to various forms of expression but access is then limited so that certain forms may no longer be performed or exhibited, the argument that the municipality intends to suppress, rather than to promote, expression may under some circumstances be stronger. . . .

The City Council also considered arbitrary and unlawful factors in disapproving the proposed concerts. Discussion at the City Council meeting indicated that Todd Rundgren and Patti Smith were rejected—at least in part—because members of the Council thought that their performances would attract homosexual crowds. Councilman Richman explicitly stated that Rundgren and Smith attracted homosexual crowds and “that’s not what we want.” The only “evidence” supporting that assertion was a Burbank police report indicating that a police department in another city where Rundgren and Smith had performed apparently stated that a large number of homosexuals had attended the concerts. Other arbitrary factors were considered by the Council in rejecting some of the proposed concerts. For example, Richman in the past had indicated opposition to performers who attracted “black audiences.” The vice-mayor objected to Patti Smith’s proposed concert because she often said “off-the-wall things.” Finally, the discussion at the City Council meeting strongly suggests that the proposed Jackson Browne concert was rejected solely because of Browne’s views, and the views of the crowd he would attract, on nuclear power. . . .

Moreover, there were no consistent content-neutral standards used to evaluate the proposed entertainers; rather, the City Council rejected groups with both favorable and unfavorable police reports. The only standard consistently applied is that performers who played what the members of the Burbank City Council thought to be “hard rock” music or who were perceived by the officials to be unorthodox in the least were disapproved. . . .

The qualified immunity of officials acting in an executive capacity protects them from section 1983 claims concerning good faith actions taken within the scope of their authority. Councilman Richman does not challenge the jury’s finding that he acted in bad faith. Thus, for purposes of resolving the immunity question, we need only decide whether Councilman Richman was acting in a legislative or an executive capacity in voting on Cinevision’s proposed concerts issue. . . . “[i.e., w]hether actions . . . are, in law and fact, an exercise of legislative power depends not on their form but upon ‘whether they contain matter which is properly to be regarded as legislative in its character and effect.’” *INS v. Chadha*, 462 U.S. 919, 103 S.Ct. 2764, 77 L.Ed.2d 317 (1983). . . .

Here, after considering the character and effects of the City Council’s act, we conclude that, as the district court recognized, the City Council was simply monitoring and administering the contract by voting on the various proposed concerts. Administration of a municipal contract—a contract between a private party and a municipality—would generally seem to be an executive function. . . . Administration of a contract does not involve the formulation of policy “as a defined

and binding rule of conduct.” Rather, it is more the type of ad hoc decision making engaged in by an executive.

We hold that in voting to disapprove all of Cinevision’s proposed concerts for the 1979 season, Councilman Richman acted in his executive, rather than legislative capacity. He therefore enjoyed only a qualified immunity. Because the jury found that he acted in bad faith, we affirm the award of damages against Councilman Richman. . . .

We conclude that the district court did not abuse its discretion in awarding attorneys’ fees. We therefore affirm the District Court’s fee award. . . .

SNEED, CIRCUIT JUDGE concurred.

NOTES

1. *Ward v. Rock Against Racism*. 491 U.S. 781, 109 S.Ct. 2746 (1989), upheld a New York City regulation requiring producers of musical events in Central Park to use city-specified and operated sound equipment in order to minimize disturbances to neighbors. Previously, when RAR refused to turn down the volume at its concerts, the city had turned off the power, at which the audience became abusive and disruptive. In other instances not associated with RAR, the use of inadequate equipment had produced similar effects among audiences. Speaking for a 6–3 court (Marshall, Brennan, and Stevens, JJ., dissenting), Mr. Justice Kennedy found that the aims of the regulation—to avoid undue disturbance to neighbors and to assure high sound quality—were content-neutral and that the possibility that an operator of the sound equipment might alter the volume to suppress unpalatable expression was insufficient to render the regulation defective on its face. Mr. Justice Kennedy observed with approval the city’s policy of deferring to sponsor desires concerning sound quality.

2. When it comes to federal arts grants, Congress can include “general standards of decency and respect for the diverse beliefs and values of the American people” among the factors to be considered. See *National Endowment for The Arts v. Finlev*. 524 U.S. 569 (1998). In an 8–1 decision, the Supreme Court found that such language was not facially unconstitutional and not inherently vague.

5.3.4 Private Actions Against Creators and Distributors

As we have seen in the preceding section, the ability of government to interfere with the flow of entertainment (whether prior to or after release) is extremely limited. However, the issue of interference does not end with an examination of the role of government, because even a successful entertainment defendant will incur substantial costs and therefore private actions can have the same chilling effect upon expression as censorship by public authorities. A number of actions have involved claims that audience members have been inspired to commit crimes after seeing specific films or television programming. In a number of cases, for example, *Davidson v. Time Warner, Inc.* 25 Med.L Rptr. 1705 (S.D. Tex. 1997), plaintiffs have claimed that crimes were inspired by record lyrics. In a slightly different scenario, the heirs of a murder victim were allowed to proceed with their action against the publisher of a manual for contract killers and a book on how to construct silencers. *Rice v. Paladin Enterprises, Inc.*, 128 F.3d 233 (4th Cir.) *cert denied* sub nom *Paladin Enterprises, Inc. v. Rice*, 523 U.S. 1074 (1998). In this case, the publisher stipulated that it had the intent that purchasers of the books make use of them, a factor not present in the two decisions that follow.

In the first of these, *Olivia N. v. National Broadcasting Company, Inc.*, plaintiff's counsel conceded the absence of "incitement." On the other hand, in *Byers v. Edmondson*, the inclusion of an assertion that the creators and distributors of "Natural Born Killers" either intended that audience members copy the behavior depicted in the film or knew or should have known that imitative behavior would result was sufficient to overcome a motion to dismiss.

Olivia N. v. National Broadcasting Company, Inc., 126 Cal.App. 3d 488, (Ct. App. 1st Dist. 1981), *cert denied* sub nom *Niemi v. National Broadcasting Co., Inc.*, 458 U.S. 1108, *reh. denied* 458 U.S. 1132 (1982).

CHRISTIAN, J.

Olivia N. appeals from a judgment of nonsuit terminating her action against the National Broadcasting Company and the Chronicle Broadcasting Company. Appellant sought damages for physical and emotional injury inflicted by assailants who had seen a television broadcast of a film drama. [However,] appellant's counsel in his opening statement to the jury indicated that the evidence would establish negligence and recklessness on respondents' part, [but not] incitement. At the conclusion of appellant's opening statement, respondents moved for a judgment of nonsuit (Code Civ. Proc., § 581c, subd. (a)) on the grounds that appellant admittedly could not meet the test for incitement. (*Brandenburg v. Ohio* (1969) 395 U.S. 444, 447 [23 L.Ed.2d 430, 433, 89 S.Ct. 1827].) Appellant's counsel again acknowledged his inability to meet the incitement test; the trial court granted respondents' motion and rendered judgment dismissing the action. Plaintiff . . . appealed.

[*Factual Summary*]

. . . NBC telecast . . . a film entitled "Born Innocent." ". . . [which told of the harmful] effect of a state-run home upon an adolescent girl who had become a ward of the state. In one scene of the film, the young girl enters the community bathroom of the facility to take a shower. She is then shown taking off her clothes and stepping into the shower, where she bathes for a few moments. Suddenly, the water stops and a look of fear comes across her face. Four adolescent girls are standing across from her in the shower room. One of the girls is carrying a "plumber's helper," waving it suggestively by her side. The four girls violently attack the younger girl, wrestling her to the floor. The young girl is shown naked from the waist up, struggling as the older girls force her legs apart. Then, the television film shows the girl with the plumber's helper making intense thrusting motions with the handle of the plunger until one of the four says, "That's enough." The young girl is left sobbing and naked on the floor. . . . It is alleged that on September 14, 1974, appellant, aged 9, was attacked and forcibly "artificially raped" with a bottle by minors at a San Francisco beach. The assailants had viewed and discussed the "artificial rape" scene in "Born Innocent," and the film allegedly caused the assailants to decide to commit a similar act on appellant. Appellant offered to show that NBC had knowledge of studies on child violence and should have known that susceptible persons might imitate the crime enacted in the film. Appellant alleged that "Born Innocent" was particularly likely to cause imitation and that NBC televised the film without proper warning in an effort to obtain the largest possible viewing audience. Appellant alleged that as a proxi-

mate result of respondents' telecast, she suffered physical and psychological damage.

[The Argument]

Appellant contends that where there is negligence liability could constitutionally be imposed despite the absence of proof of incitement as defined in *Brandenburg v. Ohio*, *supra*, 395 U.S. 444, 447. Appellant argues in the alternative that a different definition of "incitement" should be applied to the present circumstances.

"Analysis of this appeal commences with recognition of the overriding constitutional principle that material communicated by the public media, including fictional material such as the television drama here at issue, is generally to be accorded protection under the First Amendment to the Constitution of the United States." [Citations omitted.] . . . "[A]bove all else, the First Amendment means that government has no power to restrict expression because of its message, its ideas, its subject matter, or its content." (*Police Department of Chicago v. Mosley* (1972) 408 U.S. 92, 95 [33 L.Ed.2d 212, 216, 92 S.Ct. 2286]; [additional citations omitted.] Applied to the electronic media, the First Amendment means that it is the broadcaster that has authority to make programming decisions. (*Writers Guild of America, West, Inc. v. F.C.C.* (C.D.Cal. 1976) 423 F. Supp. 1064, 1154.)

Motion pictures are accorded First Amendment protections. (*Joseph Burstyn, Inc. v. Wilson*, *supra*, 343 U.S. 495, 501 [96 L.Ed. 1098, 1105, 72 S.Ct. 777].) "[T]he central concern of the First Amendment in this area is that there be a free flow from creator to audience of whatever message a film or a book might convey. . . . [T]he central First Amendment concern remains the need to maintain free access of the public to the expression." (*Young v. American Mini Theatres* (1976) 427 U.S. 50, 77 [49 L.Ed.2d 310, 330, 96 S.Ct. 2440] [conc. opn. of Powell, J.]) Freedom of speech is not limited to political expression or comment on public affairs. (*Time, Inc. v. Hill* (1967) 385 U.S. 374, 388 [17 L.Ed.2d 456, 467, 87 S.Ct. 534].) Free speech must "embrace all issues about which information is needed or appropriate to enable the members of society to cope with the exigencies of their period." (*Thornhill v. Alabama* (1940) 310 U.S. 88, 102 [84 L.Ed. 1093, 1102, 60 S.Ct. 736].) . . . The electronic media are also entitled to First Amendment protection. [Citations omitted.] Television broadcasting poses "unique and special problems not present in the traditional free speech case." [Citations omitted.] Nonetheless, the First Amendment precludes censorship of programming content even where the restraint is designed to protect children. (See Note, "Regulation of Program Content to Protect Children After Pacifica" (1979) 32 *Vand. L.Rev.* 1377, 1410-1411.) "Congress intended to permit private broadcasting to develop with the widest journalistic freedom consistent with its public obligations." (*Columbia Broadcasting v. Democratic Comm.*, *supra*, 412 U. S. 94, 110 [36 L.Ed.2d 772, 787].)

Appellant does not seek to impose a prior restraint on speech; rather, she asserts civil liability premised on traditional negligence concepts. But the chilling effect of permitting negligence actions for a television broadcast is obvious. "The fear of damage awards . . . may be markedly more inhibiting than the fear of prosecution under a criminal statute." (*New York Times Co. v. Sullivan*, *supra*, 376 U.S. 254, 277 [11 L.Ed.2d 686, 704].) Realistically, television networks would become significantly more inhibited in the selection of controversial materials if

liability were to be imposed on a simple negligence theory. “[T]he pall of fear and timidity imposed upon those who would give voice to public criticism is an atmosphere in which the First Amendment freedoms cannot survive.” (*New York Times Co. v. Sullivan*, *supra*, 376 U.S. 254, 278 [11 L.Ed.2d 686, 705].) The deterrent effect of subjecting the television networks to negligence liability because of their programming choices would lead to self-censorship which would dampen the vigor and limit the variety of public debate. (*Id.*, at p. 279 [11 L.Ed.2d at p. 706].)

Although the First Amendment is not absolute, the television broadcast of “Born Innocent” does not, on the basis of the opening statement of appellant’s attorney, fall within the scope of unprotected speech. Appellant concedes that the film did not advocate or encourage violent acts and did not constitute an “incitement” within the meaning of *Brandenburg v. Ohio*, *supra*, 395 U. S. 444, 447-448 [23 L.Ed.2d 430, 434-435]. Notwithstanding the pervasive effect of the broadcasting media (see *FCC v. Pacifica Foundation* (1978) 438 U.S. 726, 748 [57 L.Ed.2d 1073, 1093, 98 S.Ct. 3026]; Note, “The Future of Content Regulation in Broadcasting” (1981) 69 *Cal.L.Rev.* 555, 580-581) and the unique access afforded children (*FCC v. Pacifica Foundation*, *supra*, 438 U. S. 726, 749 [57 L.Ed.2d 1073, 1093]), the effect of the imposition of liability could reduce the U.S. adult population to viewing only what is fit for children. (See *Butler v. Michigan* (1957) 352 U.S. 380, 383 [1 L.Ed.2d 412, 414, 77 S.Ct. 524].) Incitement is the proper test here. (See *Kingsley Pictures Corp. Regents* (1959) 360 U.S. 684, 688 [3 L.Ed.2d 1512, 1516, 79 S.Ct. 1362].) In areas outside of obscenity the United States Supreme Court has “consistently held that the fact that protected speech may be offensive to some does not justify its suppression. See, e.g., *Cohen v. California*, 403 U.S. 15 (1971).” (*Carey v. Population Services International* (1977) 431 U.S. 678, 701 [52 L.Ed.2d 675, 694, 97 S.Ct. 2010].) Just as the advertising in *Carey*, *supra*, was not “directed to inciting or producing imminent lawless action and . . . likely to incite or produce such action” (*Brandenburg v. Ohio*, *supra*, 395 U.S. 444, 447 [23 L.Ed.2d 430, 434], quoted in *Carey v. Population Services International*, *supra*, 431 U.S. 678, 701 [52 L.Ed.2d 675, 694]), the television broadcast which is the subject of this action concededly did not fulfill the incitement requirements of *Brandenburg*. Thus it is constitutionally protected.

Appellant would distinguish between the fictional presentation of “Born Innocent” and news programs and documentaries. But that distinction is too blurred to protect adequately First Amendment values. “Everyone is familiar with instances of propaganda through fiction. What is one man’s amusement, teaches another’s doctrine.” (*Winters v. New York*, *supra*, 333 U.S. 507, 510 [92 L.Ed. 840, 847, 68 S.Ct. 665].) If a negligence theory is recognized, a television network or local station could be liable when a child initiates activities portrayed in a news program or documentary. Thus, the distinction urged by appellant cannot be accepted. [Citations omitted.] “Among free men, the deterrents ordinarily to be applied to prevent crime are education and punishment for violations of the law, not abridgement of the rights of free speech. . . .” (*Whitney v. California* (1927) 274 U.S. 357, 378 [71 L.Ed. 1095, 1107, 47 S.Ct. 641] [conc.opn. of Brandeis, J.], overruled by *Brandenburg v. Ohio*, *supra*, 395 U.S. 444 [23 L.Ed.2d 430] [Other citations omitted.] The trial court’s determination that the First Amendment bars appellant’s claim where no incitement is alleged must be upheld.

Appellant argues from *Weirum v. RKO General, Inc.* (1975) 15 Cal.3d 40 [123 Cal.Rptr. 468, 539 P.2d 36], that the First Amendment should not bar a negligence action. In *Weirum*, the California Supreme Court upheld a jury finding that a Los Angeles rock radio station was liable for the wrongful death of a motorist killed by two teenagers participating in a contest sponsored by the station. The court emphasized that the youthful contestants' reckless conduct was stimulated by the radio station's broadcast. (*Id.*, at p. 47.) Limiting its ruling, the court indicated that "[t]he giveaway contest was no commonplace invitation to an attraction available on a limited basis. It was a competitive scramble in which the thrill of the chase to be the one and only victor was intensified by the live broadcasts which accompanied the pursuit. . . . In [other] situations there [was] no attempt, as here, to generate a competitive pursuit on public streets, accelerated by repeated importuning by radio to be the very first to arrive at a particular destination." (*Id.*, at p. 48.) Disposing of the radio station's First Amendment claim, the court said: "Defendant's contention that the giveaway contest must be afforded the deference due society's interest in the First Amendment is clearly without merit. The issue here is civil accountability for the foreseeable results of a broadcast which created an undue risk of harm to decedent. The First Amendment does not sanction the infliction of physical injury merely because achieved by word, rather than act." (*Id.*) Although the language utilized by the Supreme Court was broad, it must be understood in light of the particular facts of that case. The radio station's broadcast was designed to encourage its youthful listeners to be the first to arrive at a particular location in order to win a prize and gain momentary glory. The *Weirum* broadcasts actively and repeatedly encouraged listeners to speed to announced locations. Liability was imposed on the broadcaster for urging listeners to act in an inherently dangerous manner. No such urging can be imputed to respondents here. Appellant only alleges that the teenage viewers of "Born Innocent" acted on the stimulus of the broadcast rather than in response to encouragement of such conduct. *Weirum* does not control the present case.

Appellant also relies on *FCC v. Pacifica Foundation*, *supra*, 438 U.S. 726 [57 L.Ed.2d 1073]. But the narrowness of the *Pacifica* decision precludes its application here. "We simply hold that when the Commission finds that a pig has entered the parlor, the exercise of its regulatory power does not depend on proof that the pig is obscene." (*Id.*, at pp. 750-751 [57 L.Ed.2d at pp. 1094-1095].) Furthermore, Justice Powell in his concurrence emphasized that the court is not free "to decide on the basis of its content which speech protected by the First Amendment is most 'valuable' and hence deserving of the most protection, and which is less 'valuable' and hence deserving of less protection." (*Id.*, at p. 761 [57 L.Ed.2d at p. 1101] [conc. opn. of Powell, J.].) As the United States District Court indicated in *Zamora v. Columbia Broadcasting System*, *supra*, 480 F. Supp. 199, 206, reliance on *FCC v. Pacifica Foundation* "is misplaced because of both the factual and legal bases for that decision." Other methods of controlling violence on television must be found. *Pacifica* deals with regulation of indecency, not the imposition of general tort liability. Imposing liability on a simple negligence theory here would frustrate vital freedom of speech guarantees. *Gertz v. Robert Welch, Inc.* (1974) 418 U.S. 323 [41 L.Ed.2d 789, 94 S.Ct. 2997], is also to be distinguished: There the United States Supreme Court recognized the power of the states to impose civil liability for defamation "so long as the States [do] not impose liability without fault." (418 U.S. at p. 339 [41 L.Ed.2d at p. 804].)

The holding does not extend more broadly to tort liability for speech in areas outside the law of defamation.

The judgment is affirmed.

CALDECOTT, P. J., AND POCHE, J., concurred.

A petition for a rehearing was denied January 6, 1982, and appellant's petition for a hearing by the Supreme Court was denied February 3, 1982. Mosk, J., and Broussard, J., were of the opinion that the petition should be granted.

Byers v. Edmondson, 712 So.2d 681 (La.App. 1 Cir.), writ denied 726 So. 2d 29 (1998), cert denied sub nom. Time Warner Entertainment Co., L.P. v. Byers, 526 U.S. 1005 (1999)

CARTER, JUDGE.

This is an appeal from a trial court judgment dismissing a negligence and intentional tort claim on a peremptory exception raising the objection of no cause of action.

Facts

[Byers died as the result of wounds she received during a convenience store holdup. Plaintiffs claimed that defendants Edmondson and Darrus had gone] upon a crime spree culminating in the shooting and permanent injury to Patsy Ann Byers as a result of seeing and becoming inspired by the movie "Natural Born Killers" [produced and directed by Oliver Stone and distributed by Warner Bros. Inc.] . . . a film which they knew or should have known would cause and inspire people such as . . . Edmondson and . . . Darrus, to commit crimes such as the shooting of Patsy Ann Byers, and for producing and distributing a film which glorified the type of violence [Edmondson and Darrus] committed against Patsy Ann Byers by treating individuals who commit such violence as celebrities and heroes. . . . "[According to plaintiffs, defendants should be held liable for producing and distributing a movie and video]" which they knew, intended, were substantially certain or should have known would cause or incite "such crime sprees . . . for negligently and/or recklessly failing to take steps to minimize violent content of the video or to minimize glorification of senselessly violent acts and those who perpetrate such conduct [and] for negligently and/or recklessly failing to warn viewers of the potential deleterious effects upon teenage viewers caused by repeated viewing of the film and video."

[The defendants moved to dismiss for, *inter alia*, failure to state a cause of action, asserting] that they owed no duty to plaintiffs to ensure that none of the viewers of the movie would decide to imitate actions depicted in the fictional film [or] that they owed a duty to prevent harm inflicted by others absent a "special relationship" obligating the defendant to protect the plaintiff from such harm. They further asserted that imposition of such a duty would violate the First Amendment to the United States Constitution and Article 1, Section 7 of the Louisiana Constitution. [In their moving papers, the defendants pointed out that a similar action had been dismissed by a Georgia court some two years earlier.]

[The trial court granted defendants' motion,] finding that the "law simply does not recognize a cause of action such as that presented in Byers' petition." Byers appealed the judgment of the trial court, assigning as error the trial court's find-

ing that Byers' cause of action was proscribed by Louisiana law and United States and Louisiana constitutional guarantees of free speech.

[Sufficiency of the Complaint]

When a [complaint] states a cause of action as to any ground or portion of the demand, [a motion to dismiss must be denied.] Any doubts are resolved in favor of the sufficiency of the [complaint]. *Treasure Chest Casino, L.L.C. Parish of Jefferson*, 691 So.2d at 755.

In resolving the issue of whether Byers has a cause of action against the Warner defendants for the shooting, we must determine if the Warner defendants owed a duty to Byers to prevent her from being shot by two people who viewed "Natural Born Killers" and went on a crime spree shortly thereafter. If we find that such a duty exists under Louisiana law, we must further decide whether the imposition of such a duty violates the guarantee of free speech contained in the First Amendment to the United States Constitution and in Article I, Section 7 of the Louisiana Constitution.

Duty

Byers alleges that the Warner defendants are liable to Byers under Louisiana tort law in that they were negligent and committed an intentional tort. However, before we can find that a cause of action has been set forth based on a negligence or intentional tort theory of recovery under the facts of this case, we must first determine whether a duty was owed by the Warner defendants to Byers. A duty represents a legally enforceable obligation to conform to a particular standard of conduct. *Penton v. Clarkson*, 93-0657, p. 6 (La. App. 1st Cir. 3/11/94), 633 So.2d 918, 922. Louisiana courts have traditionally applied a duty-risk analysis to determine whether a plaintiff has stated a cause of action in tort against a particular defendant. See *Meany v. Meany*, 94-0251, p. 6 (La.7/5/94), 639 So.2d 229, 233. This approach is most helpful in cases where the only issue is whether the defendant stands in any relationship to the plaintiff as to create any legally recognized obligation of conduct for the plaintiffs benefit. *Pitre v. Opelousas General Hospital*, 530 So.2d 1151, 1155 Oia.1988). The existence of duty is a question of law for the court to decide from the facts surrounding the occurrence in question. *Harris v. Pizza Hut of Louisiana, Inc.*, 455 So.2d 1364, 1371 (La.1984). When no duty exists, a court will dismiss a petition as a matter of law for failure to state a cause of action. See *Pitre v. Opelousas General Hospital*, 530 So.2d at 1158.

The factual allegations which must be accepted as true are that Edmondson and Darrus viewed "Natural Born Killers" and began a crime spree shortly thereafter; Byers was shot while Edmondson and Darrus were on this crime spree; the Warner defendants produced, directed and marketed "Natural Born Killers" for the movie theatres and for video; the Warner defendants did not warn viewers of the film or video of the potential deleterious effects that repeated viewing of the film could have on teenage viewers; the Warner defendants were negligent through the production of a film which they knew, should have known or intended would cite people such as Edmondson and Darrus to commit violent acts such as the one committed against Byers; the film glorified the type of violence committed by Edmondson and Darrus against Byers through its treatment of individuals in the film who committed such acts as celebrities and heroes; and the Warner defendants failed to take steps to minimize the violent content of the film or the glorification of senselessly violent acts in the film. Thus, Byers

essentially contends that the Warner defendants owed her a duty to not produce this film in the form in which it was released and/or to protect her from viewers who would imitate the violent acts or crimes committed by the film's two main characters and cause her harm.

We recognize that in Louisiana, a defendant does not owe a duty to protect a person from the criminal acts of third parties absent a special relationship which obligates the defendant to protect the plaintiff from such harm. [Citation omitted.] We further note that in the present case, Byers has not, nor can she allege the existence of such a special relationship.

However, we agree with Byers that based on the allegations of the petition which we must accept as true for purposes of a [motion to dismiss for failure to state a] cause of action, the Warner defendants are liable as a result of their misfeasance in that they produced and released a film containing violent imagery which was intended to cause its viewers to imitate the violent imagery. If the intentional action allegations contained in the petition can be proven at trial, the imposition of a duty would be warranted based on the same rationale used by the California court in *Weirum v. RKO General, Inc.*, 15 Cal.3d 40, 123 Cal.Rptr. 468, 539 P.2d 36 (1975) to impose a similar duty. [See discussion in preceding case—Eds.]

If in fact, plaintiffs can prove their allegation that the Warner defendants, through the creation and release of "Natural Born Killers," intended to urge viewers to imitate the criminal conduct of "Mickey and Mallory," the main characters in the film, then the risk of harm to a person such as Byers would be imminently foreseeable, justifying the imposition of a duty upon the Warner defendants to refrain from creating such a film. The breach of this duty would render the Warner defendants liable for the damages inflicted on innocent third parties such as Patsy Byers by viewers of the film imitating the violent imagery depicted in the film.

While we note that courts across the nation have generally refused to hold filmmakers, producers, directors and/or promoters liable for injuries allegedly sustained from others imitating actions or scenes depicted in a film, television broadcast or magazine, or described in a song, many of these dismissals came after the filing of a motion for summary judgment, or even after a trial on the merits and thus, after the parties had the opportunity to conduct discovery pertinent to the alleged facts. See *Way v. Boy Scouts of America*, 856 S.W.2d 230 (Tex.App. 5th Dist.1993) (motion for summary judgment granted dismissing plaintiff's claims against the publisher of a firearm advertisement in a magazine which advertisement allegedly caused a fatal firearm injury to plaintiff's son); *Yakubowicz v. Paramount Pictures Corporation*, 404 Mass. 624, 536 N.E.2d 1067 (1989) (motion for summary judgment granted dismissing plaintiff's claim that the producer of a gang violence film was liable for the murder of plaintiff's son who had viewed the film); *Bill v. Superior Court of the City and County of San Francisco*, 137 Cal.App. 3d 1002, 187 Cal.Rptr. 625 (1st Dist. 1982) (motion for summary judgment granted dismissing plaintiff's claim that the producer of a gang violence film was liable for the shooting of plaintiff's daughter by a third party shortly after both saw the film); *DeFilippo v. National Broadcasting Co., Inc.*, 446 A.2d 1036 (R.I.1982) (motion for summary judgment granted dismissing plaintiff's claim that the broadcast of a hanging stunt on a television program caused the death of plaintiff's son who tried to imitate the stunt); *Walt Disney Productions, Inc. v. Shannon*, 247 Ga. 402, 276 S.E.2d 580 (1981) (motion for

summary judgment granted dismissing plaintiff's claim that the broadcast of a television program caused plaintiff's son to be injured when the son imitated an experiment performed on the television program); and *Olivia N. v. National Broadcasting Co., Inc.*, 126 Cal.App. 3d 488, 178 Cal.Rptr. 888 (1st Dist. 1981). . . . It was a rare situation where the dismissal was granted based solely on the allegations contained in the petition. See *Zamora v. Columbia Broadcasting System*, 480 F. Supp. 199 (S.D.Fla.1979); see also *McCullum v. CBS, Inc.*, 202 Cal. App. 3d 989, 249 Cal.Rptr. 187 (2nd Dist.1988). We do not find these two latter cases to be persuasive to our decision in the present case.

In *Zamora v. Columbia Broadcasting System*, 480 F. Supp. 199, the pleadings did not contain any allegations of intentional conduct by the film producers. In this case, the petition contains allegations that the Warner defendants intended to cause the viewers of "Natural Born Killers" to imitate the conduct of "Mickey and Mallory" and go on crime sprees involving the type of crime committed upon Patsy Byers. In *McCullum v. CBS, Inc.*, 202 Cal.App. 3d 989, 249 Cal.Rptr. 187, the lyrics of a song were at issue and the court had the opportunity to examine all of the lyrics before deciding to dismiss the suit. Presently, the entire film is not before the court for examination as it was not introduced as evidence at the hearing on the peremptory exception raising the objection of no cause of action. Accordingly, based on the allegations contained in Byers' petition, we find that Byers has stated a cause of action for an intentional tort against the Warner defendants under Louisiana tort law.

[The First Amendment Argument]

Because we find that under the allegations of the petition, accepted as true, the Warner defendants may owe a duty to Byers and thus, the petition states a cause of action under Louisiana law, we must address the Warner defendants' claim that the imposition of a duty would be in contravention of the guarantee of free speech contained in the First Amendment to the United States Constitution and Article 1, Section 7 of the Louisiana Constitution. Byers contends that the conduct of the Warner defendants in creating "Natural Born Killers" is not protected speech because it falls into two of the exceptions to the First Amendment guarantee of free speech: the obscenity exception and the incitement to imminent lawless activity exception.

First Amendment rights are accorded a preferred place in our democratic society. First Amendment protection extends to a communication, to its source and to its recipients. Above all else, the First Amendment means that government has no power to restrict expression because of its message, its ideas, its subject matter, or its content. See *McCullum v. CBS, Inc.*, 249 Cal.Rptr. at 192. The fact a case does not involve government restriction of speech does not prevent the barring of an action by the first amendment. The chilling effect of permitting the imposition of civil liability based on negligence is obvious—the fear of damage awards may be markedly more inhibiting than the fear of prosecution under a criminal statute. See *Bill v. Superior Court of the City and County of San Francisco*, 187 Cal.Rptr. at 627. Motion pictures are a significant medium for the communication of ideas and are protected by the first amendment just like other forms of expression. *Joseph Burstyn, Inc. v. Wilson*, 343 U.S 495, 501–02, 72 S.Ct 777, 780, 96 L.Ed. 1098 (1952).

However, the freedom of speech guaranteed by the First Amendment is not absolute. There are certain limited classes of speech which may be prevented or

punished by the state consistent with the principles of the First Amendment: (1) obscene speech; (2) libel, slander, misrepresentation, obscenity, perjury, false advertising, solicitation of crime, complicity by encouragement, conspiracy, and the like; (3) speech or writing used as an integral part of conduct in violation of a valid criminal statute; and (4) speech which is directed to inciting or producing imminent lawless action, and which is likely to incite or produce such action. *McCullum v. CBS, Inc.*, 249 Cal.Rptr. at 192–93.

Byers argues that “Natural Born Killers” falls within the incitement to imminent lawless activity exception to the First Amendment. The constitutional guarantee of free speech does not permit a state to forbid or proscribe advocacy of the use of force or of law violation except where such advocacy is directed to inciting or producing imminent lawless action and is likely to incite or produce such action. *Brandenburg v. Ohio*, 395 U.S. 444, 447, 89 S.Ct. 1827, 1829, 23 L.Ed.2d 430 (1969). Thus, to justify a claim that speech should be restrained or punished because it is (or was) an incitement to lawless action, the court must be satisfied that the speech (1) was directed or intended toward the goal of producing imminent lawless conduct and (2) was likely to produce such imminent conduct. Speech directed to action at some indefinite time in the future will not satisfy this test. Moreover, speech does not lose its First Amendment protection merely because it has “a tendency to lead to violence.” See *Hess v. Indiana*, 414 U.S. 105, 108–09, 94 S.Ct. 326, 328–29, 38 L.Ed.2d 303 (1973).

Byers’ [allegation] that the Warner defendants intended to incite viewers of the film to begin, shortly after viewing the film crime spree such as the one that led to the shooting of Patsy Byers [must be accepted] as true for purposes of the [motion to dismiss, and] would fall into the unprotected category of speech directed to inciting or producing imminent lawless action and which is likely to incite or produce such action.

We note that in *Rice v. Paladin Enterprises, Incorporated*, 128 F.3d 233 (4th Cir.1997), the United States Fourth Circuit Court of Appeal held that the publisher of a book which contained step-by-step instructions on how to be a hit man could be civilly liable for the deaths of victims killed by a third person who followed the instructions in the book to murder the victims. The issue before the court was whether the book was protected under the First Amendment. The court found that the particular book was not protected speech. The United States Supreme Court denied writs. *Paladin Enterprises, Incorporated v. Rice*, 118 S.Ct. 1515, 140 L.Ed.2d 668 (1998).

In *Rice*, it was stipulated by Paladin that it not only knew that the book’s instructions might be used by murderers, but, it actually intended to provide assistance to murderers and would be murderers.

The U. S. Fourth Circuit further stated:

In other words, the First Amendment might well circumscribe the power of the state to create and enforce a cause of action that would permit the imposition of civil liability, such as aiding and abetting civil liability, for speech that would constitute pure abstract advocacy, at least if that speech were not “directed to inciting or producing imminent lawless action, and . . . likely to incite or produce such action.” *Brandenburg*, 395 U.S. at 447, 89 S.Ct. at 1829. The instances in which such advocacy might give rise to civil liability under state statute would seem rare, but they are not inconceivable. Cf *Schenck v. United States*, 249 U.S. 47, 39 S.Ct. 247,

63 L.Ed. 470 (1919) (criminal conspiracy prosecution predicated upon subversive advocacy). . . .

After carefully and repeatedly reading *Hit Man* in its entirety, we are of the view that the book so overtly promotes murder in concrete, nonabstract terms that we regard as disturbingly disingenuous both Paladin's cavalier suggestion that the book is essentially a comic book whose "fantastical" promotion of murder no one could take seriously, and amici's reckless characterization of the book as "almost avuncular," see Br. of Amici at 8–9. The unique text of *Hit Man* alone, boldly proselytizing and glamorizing the crime of murder and the "profession" of murder as it dispassionately instructs on its commission, is more than sufficient to create a triable issue of fact as to Paladin's intent in publishing and selling the manual.

Paladin, joined by a spate of media amici, including many of the major networks, newspapers, and publishers, contends that any decision recognizing even a potential cause of action against Paladin will have far-reaching chilling effects on the rights of free speech and press. . . . That the national media organizations would feel obliged to vigorously defend Paladin's assertion of a constitutional right to intentionally and knowingly assist murderers with technical information which Paladin admits it intended and knew would be used immediately in the commission of murder and other crimes against society is, to say the least, breathtaking. But be that as it may, it should be apparent from the foregoing that the indisputably important First Amendment values that Paladin and amici argue would be imperiled by a decision recognizing potential liability under the peculiar facts of this case will not even arguably be adversely affected by allowing plaintiffs' action against Paladin to proceed. In fact, neither the extensive briefing by the parties and the numerous amici in this case, nor the exhaustive research which the court itself has undertaken, has revealed even a single case that we regard as factually analogous to this case.

Paladin and amici insist that recognizing the existence of a cause of action against Paladin predicated on aiding and abetting will subject broadcasters and publishers to liability whenever someone imitates or "copies" conduct that is either described or depicted in their broadcasts, publications, or movies. This is simply not true. In the "copycat" context, it will presumably never be the case that the broadcaster or publisher actually intends, through its description or depiction, to assist another or others in the commission of violent crime; rather, the information for the dissemination of which liability is sought to be imposed will actually have been misused vis-a-vis the use intended, not, as here, used precisely as intended. It would be difficult to overstate the significance of this difference insofar as the potential liability to which the media might be exposed by our decision herein is concerned.

And, perhaps most importantly, there will almost never be evidence proffered from which a jury even could reasonably conclude that the producer or publisher possessed the actual intent to assist criminal activity. In only the rarest case, as here where the publisher has stipulated in almost taunting defiance that it intended to assist murderers and other criminals, will there be evidence extraneous to the speech itself which would support a finding of the requisite intent; surely few will, as Paladin has, "stand up and proclaim to the world that because they are publishers they have a unique constitutional right to aid and abet murder." Appellant's Reply Br. at 20.

Moreover, in contrast to the case before us, in virtually every "copycat" case, there will be lacking in the speech itself any basis for a permissible inference that the "speaker" intended to assist and facilitate the criminal conduct described or depicted. Of course, with few, if any, exceptions, the speech which gives rise to the copycat crime will not directly and affirmatively promote the criminal conduct, even if, in some circumstances, it incidentally glamorizes and thereby indirectly promotes such conduct. 128 F.3d at 249, 254, 265.

In holding that plaintiffs' allegations of intent state a cause of action, we do not address the issue of whether the Warner defendants may later invoke the protection of the First Amendment guarantee of free speech to bar Byers' claim after discovery has taken place. It is only by accepting the allegations in Byers' petition as true that we conclude that the film falls into the incitement to *imminent* lawless activity exception to the First Amendment. We agree with *Rice v. Paladin* . . . that the mere foreseeability or knowledge that the publication might be misused for a criminal purpose is not sufficient for liability. Proof of intent necessary for liability in cases such as the instant one will be remote and even rare, but at this stage of the proceeding we find that Byers' cause of action is not barred by the First Amendment. Since we have determined that the allegations of plaintiffs' petition bring the case at this stage into the incitement to imminent lawless activity exception, we need not address Byers' claim that the film constitutes obscene speech.

Conclusion

For these reasons, the judgment of the trial court is reversed and the matter is remanded to the trial court for further proceedings consistent with the views expressed herein. Costs of this appeal are assessed to the Warner defendants.

REVERSED AND REMANDED.

NOTES

1. On March 12, 2001, the judge to whom the case was remanded dismissed the complaint, citing First Amendment concerns and the absence of intent on the part of Warner Bros. and Stone to incite unlawful activity. The plaintiffs indicated that they would appeal.

2. For a critical analysis of this case, see Stephen F. Rohde, "Killer Defense," *Los Angeles Lawyer*, vol. 23 no. 2 (April 2000), p. 28.

Chapter 6

REMEDIES

6.1 SELF-HELP

In every one of the entertainment industries, there is a constant battle for attention. Although those in the business would hate to admit it, they are competing for shelf space in much the same manner as cereal manufacturers compete for space in supermarkets. Record companies vie for the privilege of setting up special displays right next to the check out counters of record stores. Book publishers want their books displayed at eye level. Every creator sees his or her work as special, hit material.

Unfortunately, for a variety of reasons, many works receive less attention than their creators believe they should. Frustration sets in. Perhaps a recording artist is on tour and finds the local record stores out of stock when he arrives in a city where he is to play. Or a novelist arrives for a book signing and there are not enough copies of her book to provide one for each prospective buyer.

As we have seen (in Section 5.2), the company is generally only required to make a reasonable effort to exploit the creator's work, and courts are loath to place themselves in the position of marketing and distribution specialists. It can be very frustrating for the creator. As we see in the case which follows, one enterprising author attempted to correct what he saw as an undersupply of his work by resorting to portions of the Uniform Commercial Code. The results, however, were less than satisfactory.

Dodd, Mead & Company, Inc. v. Lilienthal, 514 F. Supp. 105 (S.D.N.Y. 1981)

DUFFY, DISTRICT JUDGE

This is a motion and cross-motion for summary judgment brought by the parties pursuant to Rule 56 of Fed.R.Civ.P. The pertinent facts are undisputed.

Defendant Alfred M. Lilienthal ("Lilienthal") is the author of a literary work entitled *The Zionist Connection*. On October 10, 1977, Lilienthal contracted with

a publisher, Dodd Mead Co., Inc. (“Dodd Mead”), for the publication of his book. By means of this agreement, Lilienthal granted to Dodd Mead “the exclusive right of printing, publishing and selling in book form (*The Zionist Connection*) in the United States of America and its dependencies, also Canada and the Philippine Islands during the full term of copyright and all renewals thereof . . .”. Lilienthal also agreed that he would not, “without the consent of (Dodd Mead,) publish any abridged or other editions of the work or any book of similar or competing character.”

Thereafter, Dodd Mead obtained a copyright registration in the name of Alfred M. Lilienthal, c/o Middle East Perspective, Inc. The certificate of copyright listed Dodd Mead as the registered agent of the author.

Dodd Mead printed and distributed 14,500 copies of the book between December 11, 1978 and October 10, 1979, and in addition Dodd Mead spent more than \$66,000 in manufacturing and promoting the book. The work is currently listed in Dodd Mead’s catalogues as well as in *Books In Print*.

In 1979, Lilienthal became dissatisfied with Dodd Mead’s publication and marketing efforts. He learned that the book could not be found in many bookstores and that Dodd Mead had stated they would not print any additional books. As a result, he instituted an action upon the contract in New York State Supreme Court in September, 1979, claiming that Dodd Mead had failed to perform adequately under the contract. That action is still pending.

In December, 1979, defendants Lilienthal and Middle East Perspective, Inc. (“MEP”) published an edition of *The Zionist Connection* (“MEP edition”). The only substantial difference in this edition from the Dodd Mead edition are the deletion of the name of Dodd Mead as publisher and the insertion of Middle East Perspective, Inc. in its place. There is no doubt that the two publications are otherwise identical.

Dodd Mead brought this federal action for damages and injunctive relief based on defendants’ alleged piracy of their copyrighted work. In a decision dated July 14, 1980, I granted plaintiff’s motion for a preliminary injunction restraining defendants from selling or printing copies of the MEP edition. See 495 F. Supp. 135 (S.D.N.Y. 1980). Plaintiff now moves for summary judgment to obtain a permanent injunction and to receive damages.

The issue of whether this court has subject matter jurisdiction to plaintiff’s claim for copyright infringement has already been decided in the affirmative. See 495 F. Supp. at 137. An enforceable copyright in a literary work vests initially in the author or authors of the work. 17 U.S.C. 201(a). “Any of the exclusive rights comprised in a copyright,” however, “may be transferred in whole or in part by any means of conveyance.” 17 U.S.C. 201(d). The owner of such a right may “institute an action for any infringement of that particular right while he or she is the owner of it.” 17 U.S.C. 501(b). In this case, by contract between the parties, Dodd Mead is the owner of the exclusive right to print, publish and sell the work. Therefore, Dodd Mead, the owner of the exclusive right, is entitled to the protections and remedies of the Copyright Act.

The possible breach of contract by Dodd Mead does not necessarily affect its rights of exclusive publication. The defendants’ state court action seeking damages for breach of contract acts to affirm the assignment of publication rights rather than avoid it. See *Sylvania Industrial Corp. v. Liliensfeld’s Estate*, 132 F.2d 887, 893 (4th Cir. 1943). Thus, this court has jurisdiction to determine whether

Lilienthal infringed the exclusive publication rights which had been assigned to Dodd Mead.

Defendants make three principal arguments in opposition to plaintiff's summary judgment motion and in support of their cross-motion for summary judgment.

First, defendants argue that according to the terms of the contract between the parties, plaintiff retained the right to buy books at a substantial discount from the publisher and to re-sell them without restriction. When the plaintiff allegedly breached this term of the contract by refusing to print further copies of the book, they were entitled, defendants assert, to "cover" by printing up their own copies. Second, defendants argue that Dodd Mead abandoned the copyright and therefore cannot enforce it. Finally, defendants assert that Lilienthal's first amendment right to disseminate his work to the public precludes Dodd Mead's claim for copyright infringement. For the reasons that follow, these arguments are unavailing.

Defendants contend that a letter signed by S. Phelps Platt, Jr., president of Dodd Mead, six days before the parties entered into the publishing agreement, sets forth the essential terms of the parties' agreement which Dodd Mead supposedly breached. This letter states that Lilienthal agreed to purchase an initial order of not less than 3,000 copies of the first printing at 47 percent off the published retail price. In addition, Dodd Mead agreed that Lilienthal would have the continuing right to purchase books at the same discount on orders of 1,000 or more, and to purchase smaller quantities at a lower discount. Lilienthal asserts that the letter contained no restrictions on resale of the books and that, in fact, Dodd Mead encouraged Lilienthal to go out and sell the book. Finally, Lilienthal claims that Dodd Mead's letter expressed the publisher's continuing obligation to promote the book to "the maximum extent." (Lilienthal Affidavit P. 16, p. 9).

An important issue raised by this argument is whether the October 4 letter is in any way incorporated into the October 10, 1977 agreement between the parties. This issue, which must be resolved under New York law, need not be disposed of here because even if the letter did constitute the agreement between the parties, Dodd Mead's actions in alleged breach of the agreement did not justify Lilienthal's publication of the book.

Lilienthal argues that Dodd Mead failed to adequately promote the book and to adequately distribute copies to bookstores around the country. Starting in the spring of 1979, Lilienthal began receiving letters from the public indicating that his book was not available in bookstores. Then, Lilienthal learned from his previous publisher that Dodd Mead did not intend to re-print the book.

When Lilienthal requested an explanation by Dodd Mead, Dodd Mead stated in a letter dated September 18, 1979 that they did not intend to print more than the 12,500 copies of the book already printed until Lilienthal paid a \$42,359.77 debt owed to Dodd Mead. Lilienthal then replied by letter to Dodd Mead stating that he had paid approximately this amount into an escrow account pending his accountant's analysis of the debt.

In October, 1979, Dodd Mead printed an additional 2,000 copies of the book. Lilienthal claims to have had no knowledge of this printing, at least until after October 23, 1979 when Lilienthal signed a contract with another printer to print approximately 2,000 copies of the book.

It is Lilienthal's contention that when Dodd Mead failed to publish the book

at his request, he had the right to “cover” by substituting books printed at his own expense under the New York Uniform Commercial Code 2–712.

[N.Y.U.C.C. Law 2–711 provides in part:

- (1) Where the seller fails to make delivery or repudiates or the buyer rightfully rejects or justifiably revokes acceptance then with respect to any goods involved, . . . the buyer may cancel and . . . (a) “cover.” . . .

N.Y.U.C.C. Law 2–712 provides:

- (1) After a breach within the preceding section the buyer may “cover” by making in good faith and without unreasonable delay any reasonable purchase of or contract to purchase goods in substitution for those due from the seller.
- (2) The buyer may recover from the seller as damages the difference between the cost of cover and the contract price together with any incidental or consequential damages as hereinafter defined (Section 2–715) but less expenses saved in consequence of the seller’s breach.
- (3) Failure of the buyer to effect cover within this section does not bar him from any other remedy.]

Lilienthal, however, has failed to demonstrate any breach of the contract by Dodd Mead which triggered a right to cover. There is no indication that Dodd Mead failed to meet specific orders for books made by Lilienthal in accordance with the October 4 letter. Lilienthal’s major grievance is that Dodd Mead was not printing enough books to keep up with the public’s demand. If proven, this may or may not have constituted a breach of contract. Such a determination, however, will have to be made in the state court action. In any case, Dodd Mead’s alleged failure to meet the public demand did not permit Lilienthal to publish his own copies in contravention of the contract between the parties. Lilienthal’s obvious remedy under these circumstances was to follow the terms of the contract which at paragraph 17 provided:

If at any time during the continuance of this Agreement the work shall be out of print for six months in all editions, including reprints, whether under the imprint of the Publishers or another imprint, and if, after written notification from the Author, the Publishers shall fail to place the work in print within six months from the date of receipt of such notification, then this Agreement will terminate and all of the rights granted to the Publishers here under shall revert to the Author. The Author shall have the right for thirty days after such termination to purchase from the Publishers all copies or sheets (if any) remaining at the cost of manufacture and the plates and engravings of illustrations (if in existence) at one-half their cost to the Publishers, including composition, all f.o.b. point of shipment.

Unfortunately, the record before me does not show that Lilienthal pursued this avenue. He cannot be permitted now to sue for damages on the contract and, at the same time, to breach the contract egregiously by printing his own copies. Defendants’ argument that Dodd Mead abandoned its exclusive right under the copyright is also without merit. In order for the holder of a copyright to abandon his rights thereunder, he must perform some overt act which manifests an intent to surrender rights in the copyrighted material. [Citations omitted.]

Here, Dodd Mead never abandoned the copyright in Lilienthal's work. Between December, 1978 and October, 1979, Dodd Mead printed 14,500 copies and spent more than \$66,500 on its manufacturing and marketing. There is absolutely no evidence to suggest Dodd Mead intended to give up its exclusive rights in the book.

Finally, Lilienthal submits that his freedom of expression is being abridged, in violation of the first amendment, by Dodd Mead's enforcement of the copyright. The evidence proffered by Lilienthal, however, does not support this claim. There is no indication that he has been prevented from expressing his opinions. Ideas and opinions are not subject to copyright even though the specific form of expression may be. *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1170 (9th Cir. 1977). Here, it is not Lilienthal's expression of a particular viewpoint to which Dodd Mead objects. Rather, the act complained of is the unauthorized reproduction and sale of a written work which Dodd Mead has acquired exclusive rights to distribute. There is no first amendment right on the part of Lilienthal to so egregiously breach an exclusive publication contract which he freely entered into.

Plaintiff's motion for summary judgment is therefore granted, and defendants' cross-motion for summary judgment is denied. The defendants are hereby permanently enjoined from publishing, selling, marketing or otherwise disposing of any copies of the book entitled *The Zionist Connection*. The case is referred to Magistrate Bernikow for an inquest to determine damages. SO ORDERED.

6.2 RESCISSION

One of the causes of action encountered frequently in complaints filed in entertainment industry litigation is a count seeking rescission. Often, the plaintiff holds a sincere belief that there are legitimate grounds to undo the agreement; in other cases, the approach is based upon changed circumstances under which the plaintiff, if successful, would be able to make a more advantageous deal elsewhere. As the *Nolan* case indicates, rescission, carrying with it a reversion of the rights originally transferred, will rarely be granted unless there is a total failure of consideration. Moreover, as the *Peterson* case demonstrates, limits may be placed upon the scope of the remedy even where rescission is granted.

Nolan v. Williamson Music Inc., 300 F. Supp. 1311 (S.D.N.Y. 1969),
aff'd, 499 F.2d 1394 (1974)

[Nolan, a member of the famed singing group The Sons of the Pioneers (which, during its early years, included a young singer who went on to fame as cowboy star Roy Rogers), wrote an extremely popular country/western song, "Tumbling Tumbleweeds," which he sold to Sam Fox Publishing Company in return for Fox's promise to pay stated composer royalties. In most instances, these were a percentage of royalties received by the "Publisher" (defined in the contract as Fox, "its successors and assigns forever").

After publishing the song for 12 years, Fox conveyed it to Williamson, which, in turn, agreed to pay Fox between 50% and 66 $\frac{2}{3}$ % of Williamson's receipts, and paid Fox an advance of \$17,500. As between Fox and Williamson, Fox continued to have the duty to account to and to pay Nolan his share of royalties (essentially, 33 $\frac{1}{3}$ % of "Publisher's" receipts).

In 1960, when he became entitled to renew the copyright on “Tumbling Tumbleweeds,” Nolan (as required pursuant to his original contract with Fox) assigned the renewal to Fox, which, in turn, executed a further assignment to Williamson.

While Fox never notified Nolan of the assignments to Williamson, Williamson had taken out an ad in *Variety* at the time of the original assignment, announcing that it had acquired “the sensational Western song, ‘Tumbling Tumbleweeds’ by Bob Nolan.” In addition, Williamson had registered the assignment in the Copyright Office. Further, Gray, who was Nolan’s business manager for some 19 years, learned of the assignment in the course of representation of a different client.

Throughout the period following the assignment to Williamson, Fox essentially paid Nolan 33⅓% of what Williamson paid Fox, not 33⅓% of what Williamson collected. In addition, Fox failed to pay Nolan 74% of the royalties due Nolan for a six-year period (including a total failure to pay him any foreign royalties for that period).

Nolan sued seeking to rescind the contract and recover his copyright, by reason of fraud. In addition, Nolan sought royalties and damages for copyright infringement.]

EDELSTEIN, DISTRICT JUDGE

The basic claim which plaintiff has urged in this suit is that he had the legal right to, and, in fact, did rescind his agreements with Fox by the May 29, 1963 notice. Plaintiff argues that rescission is justified in this case because over the years Fox has allegedly committed the following breaches: (1) non-payment of all royalties earned by foreign sources (this is conceded by Fox); (2) non-payment of the royalties due from domestic performing income; (3) non-payment of all of the royalties due on octavo editions of the song, electrical transcriptions, synchronizations, and on lyric uses of the song; (4) assignment of the copyright and its renewal term to Williamson; (5) payment of royalties by Fox based only on Fox’s receipts from Williamson; [etc.]. . . .

The court finds that it was not a breach of contract for Sam Fox to assign the copyright to Williamson. The 1934 transfer from plaintiff to Sam Fox of “all rights of every kind, nature and description” which plaintiff had in the copyright was clearly absolute on its face. Furthermore, the agreement specifically provided that the conveyance was to “Publisher, its successors and assigns.” Whether a contract is assignable or not is, of course, a matter of contractual intent, and one must look to the language used by the parties to discern that intent. Clearly the language just quoted contemplated that the agreement was to be assignable. Williston on Contracts sec. 423 (3rd ed. 1962).

The plaintiff . . . seems to be saying, however, that this contract involved such personal elements of trust and confidence that it was not assignable without the consent of the parties despite the clear language to the contrary. This argument, though, is not premised upon any reliable evidence adduced at the trial which would demonstrate that Nolan entered into his agreement with Fox because of any personal trust and confidence which he placed in Fox. Further, rescission of copyright exploitation agreements much like the one in issue in the case at bar was also sought in the case of *In re Waterson, Berlin & Snyder Co.* when the original assignee of the copyrights at issue there attempted to assign them to other publishers. The District Court, 36 F.2d 94 (S.D.N.Y. 1929), granted re-

scission in that case on the ground that the agreements were not assignable because of the degree of personal trust involved in them. The Court of Appeals, *In re Waterson, Berlin & Snyder Co. Irving Trust Co.*, 48.2d 704 (2d Cir. 1931), however, reversed that decision and held that the copyrights could be assigned further.

Plaintiff's assertions of fraud are based in part upon the allegation that Fox concealed from plaintiff its relationship with Williamson by never giving plaintiff actual notice of the assignment. The evidence, however, does not support a finding of fraud in this regard. . . . [T]he court has already held that the contract was assignable without Fox's first having to obtain the plaintiff's consent. Further, far from demonstrating an intent to conceal the assignment, the evidence shows that the defendants openly announced the fact of their arrangement in . . . *Variety* [and] the assignment was registered in the Copyright Office and the Fox-Williamson relationship was noted on the copies of sheet music which were distributed.

In this regard it is also important to note that . . . [Gray] had, at the least, notice that Williamson was publishing the song, and since Gray was plaintiff's authorized business agent in general and specifically acted as such with regard to "Tumbling Tumbleweeds," this notice is imputable to plaintiff. See, e.g., *Farr v. Newman*, 14 N.Y.2d 183, 250 N.Y.S.2d 272, 199 N.E.2d 369, 4 A.L.R.3d 215 (1964).

The other part of plaintiff's claim of fraud is predicated upon the failure of Fox to render clearer and more detailed accountings to plaintiff and to pay him all of the royalties which were due him. Again, however, the reliable evidence fails to demonstrate fraud. Essentially what plaintiff is really complaining of here is mere breaches of contract by Fox; fraud consists of something more than the mere breach of a contract. . . . [R]escission can be permitted only when the complaining party has suffered breaches of so material and substantial a nature that they affect the very essence of the contract and serve to defeat the object of the parties.

Cases which have considered the problem of rescission in situations analogous to the one presented by the case at bar have granted rescission only after finding the equivalent of a total failure in the performance of the contract. In *Raftery v. World Film Corp.* [180 App. Div. 475, 167 N.Y.S. 1027 (1st Dept. 1917)], the plaintiff temporarily turned over to the defendant prints from which movies were to be made and then distributed. The contract provided that the defendant was to render weekly accounts of the earnings on the movies and to pay the plaintiff fifty percent thereof. The prints were to be returned at the expiration of the contract term. The court found that the defendant never paid plaintiff the full amount due, deliberately maintained a set of fictitious records, deliberately rendered false accountings, refused to permit inspection of the records as was required by the contract, and failed to return the prints to the plaintiff. Based on all of these factors rescission was granted. . . . [A]nd finally in *DeMille Co. v. Casey*, 115 Misc. 646, 189 N.Y.S. 275 (Sup.Ct. 1921), a contract permitting the defendant to produce motion pictures based on plaintiff's plays was rescinded when royalty payments ceased and the defendant, because of various sublicensing agreements over which he had lost effective control, was no longer in a position to comply with the contract and to protect the plaintiff's future interest. . . .

Although defendant has been guilty of diverse breaches, these breaches involve a failure to comply fully with the contractual provisions for payment of royalties

in various categories, and as to these breaches, it is clear to the court that plaintiff may be rendered whole by an award of monetary damages. Moreover, there seems little danger that Nolan will be deprived of his royalties in the future. This is not a case where the defendant has repudiated his obligation to pay royalties, nor is this a case in which plaintiff's song has not been exploited fully in the past or threatened with not being fully exploited in the future. . . .

It is the judgment of this court that plaintiff's agreements with Fox are not rescinded. Plaintiff is entitled to the payment of royalties due him under his 1934 and 1960 agreements with Fox and the court directs an accounting limited to the period commencing six years prior to the commencement of this action, except that this six-year limitation does not apply to the money due plaintiff for royalties derived from foreign mechanical income [which, Fox conceded, had never been paid at all, and as to which Fox waived the application of the statute of limitations]. . . .

[After findings by a Special Master, the Court found for Nolan in the amount of \$94,148, including interest and costs. Both sides appealed.]

Nolan v. Sam Fox Publishing Company, Inc., 499 F.2d 1394 (2d Cir. 1974)

WATERMAN, CIRCUIT JUDGE

. . . [The *Variety* ad] is, of course, patently inconsistent with the theory that Fox and Williamson were intent on concealing their relationship. Moreover, Williamson's name was displayed on all the sheet music copies of the song published by it. Nolan argues, however, that nowhere in the *Variety* announcement or on the sheet music was Williamson identified as the "publisher." This omission, in and of itself, surely would not demonstrate fraud. In addition, it is significant that the assignment from Fox to Williamson was recorded at the Copyright Office. Inasmuch as that assignment was recorded, we need not even reach the question of whether Nolan can be charged with knowledge of the assignment because of the recording, for it suffices to say here that this recodation further illustrates that Williamson and Fox had no intention whatever of concealing their relationship from Nolan or from anyone else. . . . [In addition, it] is unimportant what Gray actually did or did not tell Nolan about the knowledge Gray obtained. Whatever knowledge Gray had is imputed to Nolan. . . .

Although the existence of fraud is a sufficient ground for permitting rescission it is not a necessary one. Rescission has also been allowed, despite the absence of any showing of fraud, in cases in which a publisher has made none of the royalty payments. The rationale of these decisions is, of course, that an essential objective of a contract between a composer and publisher is the payment of royalties, and a complete failure to pay means this objective has not been achieved. Here, however, Fox did pay 26% of the royalties due to Nolan for the applicable six-year period, and this partial payment of royalties due distinguishes this case from cases where there was total failure to pay the required royalties. . . .

Peterson v. Highland Music, Inc., 140 F.3d 1313 (9th Cir. 1998)

FLETCHER, CIRCUIT JUDGE

This case involves an attempt by the Kingsmen, a musical group, to secure a rescission of the contract by which they assigned to others the rights to their

popular recording of the hit song, “Louie, Louie.” The group made the recording over thirty years ago. They then sold the [recording, the “[Masters]”]⁴ . . . in return for nine per cent of any profits or licensing fees that the recording might generate. [However, t]he Kingsmen have never received a single penny of the considerable royalties that “Louie, Louie” has produced over the past thirty years.

In 1993, the Kingsmen brought suit in federal district court in California for rescission of the contract, basing their claim entirely on actions (or inactions) by the defendants that fell within the four-year statutory limitations period. After a full trial, the district court ruled in plaintiffs’ favor and granted the rescission, restoring possession of the Masters to the Kingsmen. . . . The judge [in a subsequent action then] ruled, on summary judgment, that the rescission enforced in the original action was effective as of the date when the Kingsmen formally declared their intention to rescind—the date of the filing of the complaint—and that defendants must [return the Masters and] pay to the Kingsmen any royalties or profits that accrued thereafter, whether from licenses entered into after the date of rescission or from licenses that preexisted that date. The district court also issued an order in aid of enforcement of its first judgment, commanding defendants to turn over the Masters to plaintiffs forthwith. . . . Defendants . . . contend that the district court erred in holding that the statute of limitations does not bar remedy of rescission in this case. In California, the statute of limitations for an action seeking rescission of a contract is four years. See Cal.Code Civ. Proc. 337. Specifically, the statute provides that an aggrieved party must commence such an action within four years “from the date upon which the facts that entitled the aggrieved party to rescind occurred.” *Id.* Both parties agree that the period of limitations has long since run with respect to the first occasions on which defendants breached their agreement. Both parties also agree that defendants have breached their agreement repeatedly over the course of the past thirty years, and did so, repeatedly, within four years of the time that plaintiffs commenced this action. Defendants’ claim is that, even in the face of multiple and continuing breaches of the agreement, the California statute should be read to bar any action that is not commenced within four years of the first occasion on which an aggrieved party could have requested rescission. Defendants cite no authority for this proposition, and we reject it.

In analyzing requests for rescission where there have been multiple breaches under an installment contract, California courts have held that each breach starts the clock afresh for statute of limitations purposes. In *Conway v. Bughouse, Inc.*, 105 Cal.App. 3d 194, 164 Cal.Rptr. 585 (1980), for example, a California appeals court looked to the manner in which money would be paid under a pension contract in determining how a party’s failure to make any given payment should affect the tolling of the statute of limitations.

[T]he total amount of money to be paid to [the pensioner] is not a fixed sum which is to be paid out over a period of time. To the contrary, the total amount owed is unascertainable until the date of [the pensioner’s] death because each payment is separate and contingent upon [the survival of the pensioner and his adherence to the terms of the contract]. As each payment is separable from the others and is not a part of a total payment, the agreement should logically be considered an installment contract for purposes of determination of the application of the statute of limitations.

Id. at 199–200, 164 Cal.Rptr. 585. The same holds true in the present case: There is no fixed amount to be paid out over time under the Kingsmen’s contract, but rather a continuing obligation to pay a portion of the profits and royalties on “Louie, Louie” as the recording gets used over time.

The district court in this case made it clear that, in determining whether rescission was warranted and appropriate, it was relying upon breaches that had occurred within the limitations period. To find for defendant under these circumstances would be to hold that California law forever bars a party from seeking a remedy of rescission after it has once passed up the opportunity to do so, regardless of the nature of any future breaches of the other party’s obligations. We have found no authority that would support such a reading of California law. We therefore affirm the district court’s conclusion that the statute of limitations does not bar rescission of the contract in this case. . . .

[T]he district court found that the rescission of the Kingsmen’s contract was effective as of the date of the filing of the Kingsmen’s complaint. We agree. Under California law, “a party to a contract [can] rescind it and . . . such rescission [can] be accomplished by the rescinding party by giving notice of the rescission and offering to restore everything of value which [the rescinding party has] received.” *Runyan v. Pacific Air Indus.*, 2 Cal.3d 304, 311, 85 Cal.Rptr. 138, 466 P.2d 682 (1970); see also *Id.* at 311–13, 85 Cal.Rptr. 138, 466 P.2d 682. When a party gives notice of rescission, it has effected the rescission, and any subsequent judicial proceedings are for the purpose of confirming and enforcing that rescission. See *Id.* at 311–12, 85 Cal.Rptr. 138, 466 P.2d 682. Thus, when the Kingsmen filed suit in 1993, they rescinded the contract and became owners of the Masters. The lawsuit that followed confirmed that their rescission was a proper one and resulted in an order enforcing that rescission. The district court correctly ruled that, as the owners of the Masters, the Kingsmen are entitled to all income derived from the exploitation of the recordings following September 29, 1993, the date of the notice of rescission.

NOTE

For a discussion of the Peterson case and related considerations, see Jeanette M. Bazis, Remedies and Roadblocks in the Recovery of Unpaid Music Royalties, *ABA Entertainment & Sports Lawyer*, vol. 17, no. 4 (Winter 2000), p. 18.

6.3 INJUNCTION

The entertainment industries run on a fuel consisting in equal parts of great enthusiasm and high expectations. At least, this is usually the case at the outset of a deal. However, creative and business interests often diverge, tempers rise, and all at once the parties are at loggerheads. Litigation begins. The company will want to secure an injunction to prevent the artist from leaving the production. One side or the other will seek an injunction. In many cases, the grant or denial of the injunction will for practical purposes often end the litigation, with the artist often returning to work in the former instance and a settlement following thereafter in the latter instance.

The standards for a preliminary injunction are discussed in the second part of the Introduction. Special problems in securing injunctions in California are considered in Section 2.4.

A negative injunction to prevent a party from working elsewhere has particular appeal in the entertainment industries. While the normal legal response to contract breach in other situations is damages for loss incurred, how does one accurately measure the loss of a star attraction? The lost profits from a proposed, but unfulfilled, venture may be too speculative to prove to a court's satisfaction. While damages are an effective remedy in some situations, the employers of talent have often turned to another weapon to deal with the defecting performer. That weapon is the negative injunction.

The enforcement of the personal services contract through a negative injunction dates to the landmark English case decided in 1852, *Lumley v. Wagner*, 1 De G.M.&G 604, 42 Eng.Rep. 687 (1852). A young opera singer, Johanna Wagner, was under contract to Her Majesty's Theatre of London. When she attempted to breach that contract and join a rival troupe, Her Majesty's Theatre sued both her and her new employer. As to Ms. Wagner, the court pointed to the provision in her contract where she was to render her exclusive services to Her Majesty's Theatre for a number of months. The Chancellor granted a negative injunction preventing Wagner from performing for the rival company with the stated reasoning that, while a court could not specifically enforce the contract, an injunction preventing her performing elsewhere might cause the defendant to return and perform her prior contractual obligations. While the Chancellor's reasoning was unavailing in Wagner's case, in that she did not return to Her Majesty's Theatre, the grounds for a negative injunction were established.

Other nineteenth-century English cases expanded on *Lumley v. Wagner*. In *Webster v. Dillon*, 30 L.T.R.(n.s.) 71 (1857), the court held that it was not necessary to include a specific clause in a contract specifying that injunctive relief was permissible. It was sufficient that the contract terms made it clear the services were to be exclusive, and that it could be determined, from the nature of the services, that they were unique and difficult to obtain from a substitute.

A second case, *Grimston v. Cunningham*, (1894) 1 Q.B. 125, involved an English actor who was in a road company touring the United States. Dissatisfied with the roles assigned to him, he abandoned the tour and returned to England, only to face a day in court when he signed with another company. He was enjoined from performing in England during the time his contract with the road company in the United States was still running. This rather extensive restriction meant it was not necessary for an employer to show competitive harm in order to obtain a negative injunction; the loss of a performer's unique services was enough. Even so, under concepts that an injunction cannot be unduly harsh or burdensome, the absence of competitive harm may cause a court to deny an injunction. Yet another English case that dealt with competitive harm, or the lack thereof, was *Marco Prod., Ltd. v. Pagola*, (1945) K.B.111.

Early entertainment cases in the United States involving the negative injunction looked to the English precedents for support. Both *Daly v. Smith*, 38 N.Y. Sup. Ct. 158 (1874) and *Mapleson v. Del Puente*, 13 Abb.N.Cas. 144 (N.Y. 1883) noted the availability of the injunction when conditions paralleled those examined in the English cases just cited. Thus, the negative injunction was effectively transferred to U.S. jurisdictions and has been a principal deterrent to contract jumping ever since.

A court will not issue a negative injunction if it feels it will be unduly harsh or burdensome. The court is influenced by the length of time the injunction is to run, the extent of geographical area in which the defendant is to be prohibited

from seeking alternative work, the types of work prohibited by the requested injunction, and the likelihood that the injunction will produce positive results.

The time left under the original contract is important, although courts have issued injunctions that effectively prohibit important types of alternative employment for three or more years. In *Warner Bros. Pictures, Inc. v. Nelson* (1937) 1 K.B. 209, actress Bette Davis was enjoined from making films or appearing on stage in England for the remainder of her contract or three years, whichever was shorter. The court did refuse plaintiff's request that, during this time, the actress be barred from all entertainment work. Even so, the length of time preventing her pursuit of her chief career was formidable.

The Davis case involved another issue of harshness of a negative injunction. When it appeared that Davis would not make further films for Warner Brothers, she was suspended from the company payroll and was still not being paid under her studio contract when suit was brought against her. The court indicated it would not order an injunction unless the company indicated a firm willingness to lift the suspension. In other words, one cannot both suspend a performer and restrain the performer from working elsewhere.

In recent years, U.S. courts have become increasingly reluctant to grant injunctions which have the effect of putting performers completely out of work. In earlier cases, *Harry Rodgers Theatrical Enterprises v. Comstock*, 232 N.Y.S.1 (1928) (competing producer wished to sign highly paid vaudeville performer already under long-term contract; when negotiations for release failed, performer signed with competing producer anyway, and negative injunction issued, perhaps impelled to some degree by performer's testimony that he didn't remember signing the contract) and *King Records, Inc. Brown*, 252 N.Y.S.2d 988 (1964) (exclusive recording artist prevented from recording for larger company during contract term under agreement entered into via company established by artist and manager). However, in the absence of such circumstances (*Machen v. Johansson, Vanguard Recording Society, Inc. v. Kweskin*, below) and even in a case involving conduct the court found totally reprehensible (*ABC v. Wolf*, below) courts in recent years have demonstrated an increasing reluctance to grant injunctions against entertainment figures.

The uniqueness of the performer's talents (or the lack thereof, as demonstrated in *Motown Records Corp. Brockert*, in Sec. 2.4.2) is a central issue when the company seeks to obtain a negative injunction against the performer. Uniqueness is largely an element of proving irreparable harm, but it bears on the issue of inadequacy of legal damages as well. Uniqueness to the extent that the performer is impossible to replace is not required. A showing of great difficulty and inconvenience in finding a substitute performer of similar talents is generally sufficient. Can the company feel secure if it includes in its talent agreements clauses reciting that the performer concedes that his/her talents are "special, unique, extraordinary, etc."? No. The courts will scrutinize such clauses just as they do the rest of the agreement. In fact, in *Wilhelmina Models, Inc. Abdulmajid*, 413 N.Y.S.2d 21 (1st Dept. 1979), the court stated that the fact that such a clause appeared in every agreement entered into by a model agency was an indication that the subject of the agreement was *not* unique.

Machen v. Johansson, 174 F. Supp. 522 (S.D.N.Y. 1959)

KAUFMAN, DISTRICT JUDGE

In this action tried to me without a jury the plaintiff seeks to enjoin the defendant from engaging in a boxing match with Floyd Patterson, the heavyweight cham-

pion of the world, scheduled to be held in New York City on June 25, 1959, approximately two weeks from today. He asks that this injunction continue until the defendant shall have engaged in a return boxing match with the plaintiff.

Plaintiff's claim for an injunction is grounded upon the contention that the defendant had agreed to a rematch with the plaintiff and had also agreed not to engage in any fights in the United States and specifically not to fight Floyd Patterson anywhere in the world before the rematch with the plaintiff had been held.

Defendant has refused to honor the alleged agreement for a rematch and to recognize the document of September 13th on several grounds: (1) He contends that [defendant] Ahlquist [the promoter of the bout] was never his agent, actual or apparent, and was never given authority to sign this agreement in his behalf, and that Flaherty [Machen's manager] had been specifically informed that defendant would not agree to a rematch; (2) that the agreement was obtained by coercion and duress [Machen's manager informed Ahlquist the night before the match that Machen would not fight unless Ahlquist first agreed in writing to a return match if Machen lost, a threat which could have been economically catastrophic for Ahlquist—Eds.]; (3) that the agreement for a rematch is void and unenforceable for lack of consideration and is further invalid because its terms are indefinite and uncertain. Other grounds are urged, such as the inability of the International Boxing Club, named in the document of September 13th as the promoter of the rematch, to perform because of its dissolution pursuant to a decree of Judge Ryan in an anti-trust suit brought against it. *United States v. International Boxing Club*, D.C., 150 F. Supp. 397; 171 F. Supp. 841; 358 U.S. 242, 79 S. Ct. 245, 3 L.Ed.2d 270.

As I have already stated, plaintiff seeks drastic relief by his prayer for an injunction restraining the defendant from engaging in the boxing match with Floyd Patterson now scheduled for June 25th and for a continuance of this injunction until Johansson shall have engaged with the plaintiff in a rematch. I am convinced that the applicable law prevents me, in the light of the facts in this case, from granting the equitable relief sought by the plaintiff. Furthermore, even if such relief could be granted, I would deny the injunction in the exercise of my discretion. I, therefore, find it unnecessary to determine whether Ahlquist had actual or apparent authority to enter into the September writing on behalf of Johansson or to agree to any provisions for a rematch in his behalf. Likewise it becomes unnecessary to decide whether the document of September 13th was extracted by duress or coercion or whether it was based on adequate consideration.

By reason of this disposition it follows also that any alleged violation of Judge Ryan's decree or assertion of a conspiracy to violate the Sherman Act, 15 U.S.C.A. 1-7, 15 note, need not be dealt with. In short, I make no findings or conclusions concerning the validity of the writing of September 13, 1958, or the enforceability of any part of that writing except the negative covenant contained in paragraph 5 thereof.

Meaning of the Negative Covenant

Even were I to assume that the writing of September 13, 1958, constitutes a valid agreement between Machen and Johansson for a return fight in the event of Machen's defeat in the September 14, 1958, fight, I would be compelled to hold that Machen is not entitled to the injunction he seeks.

It is black letter law that although a contract may be valid it may not necessarily provide the basis for equitable relief. This is not to say that the aggrieved party is left without any remedy. The usual form of redress in cases of breach of contract is money damages. Only in the most unusual case will a court of equity act upon the person of the defendant to restrain him from doing some act which the plaintiff claims may cause him irreparable injury. This is particularly true where, as in this case, the plaintiff seeks to restrain the defendant from freely practicing his trade. His right to this relief must be clear, reasonable and well defined.

In order to determine what rights and obligations may flow from the writing of September 13, 1958, I must first determine what the parties intended to achieve by that writing. My task in this case is to examine the words employed by the parties against the background of all of the circumstances under which the contract was drawn. It is only by interpreting the words of others that we may give meaning to their expressions. In the words of Professor Corbin:

In reading each other's words, men certainly see through a glass darkly; . . . the best that a judge can do is to put himself so far as possible in the position of that person or persons [whose meaning and intention are in issue], knowing their history and experience . . . and then to determine what his own meaning and intention would have been. Corbin, *Contracts* 13, 23 (1951).

So viewing the contract, it is clear on its face that the parties intended to ensure Machen an opportunity to fight Johansson in a return match in the event that Machen lost to Johansson in Sweden. The return bout was to be held in Chicago under the auspices of the International Boxing Club specifically during the last week of January or the first two weeks of February, 1959. No provision was made in the agreement for a postponement or for any alternative time within which the fight was to be held. It, therefore, appears that it was the intent of the parties that Johansson was to have performed the affirmative aspect of the contract by the end of the second week of February 1959 and that if he failed to do so he would have breached his obligation. As I have already stated, there was included in the writing of September 13, 1958, a negative covenant providing that Johansson "will not box anyone in the United States and will not box Floyd Patterson under any conditions any place in the world until the above agreements have been fulfilled." If plaintiff is entitled to the injunction he seeks, that right flows from this negative covenant. However, while the covenant clearly exhibits an intention to place some restrictions on Johansson's activities as a fighter, it provides me with no clue as to the period of time during which those restrictions were intended to run. The only temporal limitation to be found in the negative covenant is contained in the words "until the above agreements have been fulfilled." The "above agreements" must have reference to the provision relating to the return fight. Thus, the contract is subject to two possible interpretations:

- (1) that the negative covenant would run until the time when the return match was scheduled to be held, i.e., no later than February 14, 1959;
- (2) that it would run until such time as the return fight was actually held, or until a tender of performance by Johansson was refused by Machen, even if that time ran indefinitely beyond the dates specified in the agreement.

I am compelled to conclude that the parties never intended that the negative covenant run beyond February 14, 1959, the last date for performance of the return bout provision. It may be conjectured that Flaherty was fearful that Johansson, should he defeat Machen and thereby gain a reputation which would be readily saleable in the United States, [and] would not be able to resist the temptation to exploit that reputation in the months between the original Machen-Johansson fight and the return. Had Johansson engaged in an interim bout and lost, it would have seriously impaired his reputation and thus have detracted from the value of the return bout agreement. This is the eventuality against which Flaherty sought to protect his fighter.

However, plaintiff would have me adopt a different interpretation of the covenant. He now urges that, in contracting to fight Johansson, Machen gave to Johansson "the opportunity to make an important improvement in his competitive position in the boxing world." The instant covenant, plaintiff argues, was intended to prevent Johansson from utilizing his advanced position in competition with Machen until Machen shall have an opportunity to engage him in a return fight. However, a consideration and evaluation of all of the evidence in the case leads me to the conclusion that the interpretation advanced by plaintiff is the less probable of the two possible alternatives.

Under plaintiff's theory, the negative covenant could run on without restriction for an indefinite length of time. This might conceivably be for the remainder of Johansson's life should he never agree to a return match with Machen. Plaintiff concedes that the possible advancement in Johansson's position as a fighter was one of the primary inducements on Johansson's part in entering into the contract for the September 14, 1958, fight with Machen. It is difficult to believe that Ahlquist, if he was acting in Johansson's behalf, or Johansson himself, would ever agree to a contract term which might forever bar Johansson from the beneficial enjoyment of that advanced position.

I find that plaintiff has failed to establish that at the time the parties entered into the alleged agreement of September 13, 1958, they intended the negative covenant to run beyond February 14, 1959, the last date upon which the return fight was to be held.

The Injunctive Relief Sought

However, even were I to conclude that the parties intended to restrict Johansson's right to fight indefinitely and until such time as he would agree to engage Machen in a return fight, I would not enforce such a covenant by injunction.

Plaintiff urges upon me that the instant covenant is similar to that category of restrictive covenants ancillary to contracts of employment, where the employee, having gained a professional advantage through the employment, may properly be restrained from using that advantage in such a way as to do serious injury to his employer after the employment has terminated. Plaintiff argues that, by engaging Johansson in the initial fight, he advanced Johansson's professional standing, and that it was, therefore, reasonable for him to restrain Johansson from using that advanced standing to harm Machen.

Defendant, on the other hand, answers that restrictive covenants based upon a promise to refrain from competition are not valid unless they are ancillary either to a contract for the transfer of good will or other property, or to an existing employment or contract of employment. Restatement of Contracts, 515. Defen-

dant asserts that he was never an employee of Machen's nor was he ever engaged in a transfer of good will.

I need not pass upon the correctness of this proposition of law. I find that the instant covenant even as interpreted by plaintiff is not enforceable by injunction for two reasons:

- (1) It is not reasonable in its terms;
- (2) The granting of an injunction would inflict serious injury on the defendant, while not providing the plaintiff with the protection he seeks.

(a) *Reasonableness of the terms of the covenant.*

Injunctive relief is an extraordinary remedy to be granted sparingly. *Worthington Pump & Machinery Corp. v. Douds*, D.C.S.D.N.Y. 1951, 97 F. Supp. 656, 661. Where restrictive covenants have been enforced they have usually been sharply defined as to time and area. See 9 A.L.R. 1468 et seq. and cases cited therein. While it is true that there are cases in which restrictive covenants, running for the life of the one restrained, have been enforced, in such cases the restriction extended to a very limited area only. See *Fitch v. Dewes*, 2 A.C. 158 (Eng. 1921). The instant covenant is extremely broad geographically. It prevents Johansson from fighting anyone in the United States and from fighting Floyd Patterson anywhere in the world. If such a restriction is imposed upon Johansson for an indefinite period of time it would be tantamount to denying him the right to advance himself within his trade or to fight in the United States which, it was testified to, offers the most fertile field for fights. I find that this would constitute an unreasonable restraint.

(b) *The ineffectiveness of the remedy sought.*

Finally there is no way that an injunction could be framed to secure for plaintiff the results he seeks without at the same time placing Johansson under an intolerable restriction. "Equity will infrequently withhold relief which it is accustomed to give where it would be burdensome to the defendant and of little advantage to the plaintiff." *Di Giovanni v. Camden Fire Ins. Ass'n*, 1935, 296 U.S. 64, 71-72, 56 S.Ct. 1, 5, 80 L.Ed. 47.

A restriction running for only a limited period would be ineffective. Let us explore this further. Were I to restrain Johansson from fighting Patterson or fighting anyone in the United States for, let us say, one year, he might well return to Sweden, engage in several contests in Europe during the year, and then, upon the expiration of the injunction, again contract to meet Patterson. This would neither safeguard Machen's reputation nor secure for him a return match.

Nor would a longer term injunction be satisfactory. Were I to restrain Johansson from fighting for two or three years the damage to him would be very great. He would be unable to advance his position by fighting in the United States during a period that might well represent a relatively large portion of his effective ring career. Yet the benefit to plaintiff from such a restriction would be small. Machen would undoubtedly engage in bouts with other fighters during the period when Johansson was under the restriction. Indeed, he has already engaged in one such fight since his defeat by Johansson on September 14, 1958. Each time Machen fought, the outcome would have an impact, for good or ill, upon his standing as a fighter. These subsequent fights, and not any activity upon

Johansson's part, would form the basis of the sports world's evaluation of Machen's abilities. Thus, while it may be argued that at this moment Johansson in effect carries Machen's reputation into the ring with him, this is a situation which will be of but short duration.

In summary, I find that plaintiff has failed on a number of grounds to demonstrate his right to the extraordinary relief he seeks:

- (1) There is nothing to indicate that the parties intended that the negative covenant was to run beyond February 14, 1959 and in fact it is apparent that the parties intended the restriction to run only until that date.
- (2) If the covenant was intended to run indefinitely beyond February 13, 1959, it is unenforceable because it would place an unreasonable restriction upon defendant.
- (3) No injunction could be framed which would provide plaintiff with the results he asks without placing defendant under an intolerable and unreasonable burden.

Any one of these grounds would be sufficient in itself to deny plaintiff the relief sought. . . .

Vanguard Recording Society, Inc. v. Kweskin, 276 F. Supp. 563
(S.D.N.Y. 1967)

BONSAL, DISTRICT JUDGE

Vanguard moves pursuant to Rule 65, F.R. Civ.P., for a preliminary injunction enjoining:

(a) defendants Kweskin and Warner Bros. from performing any agreements between them for the recording and sale of photograph records embodying the performances of Kweskin;

(b) defendant Warner Bros. from entering agreements with third persons for the production or distribution of phonograph records embodying the performances of Kweskin, from advertising or using the name and likeness of Kweskin with regard to phonograph records, and from interfering with the exclusive recording agreement that Vanguard claims exists between it and Kweskin;

(c) defendant Warner Bros., its licensees and agents from manufacturing, selling or distributing any phonograph records embodying the performances of Kweskin, and ordering Warner Bros. to destroy any master tape recordings or other material embodying the performances of Kweskin.

Plaintiff's motion for a preliminary injunction is denied.

Kweskin is the leader of a musical group called "Jim Kweskin and The Jug Band," or "Jim Kweskin Jug Band" (hereinafter referred to as the Jug Band). The Jug Band entered into a recording contract with Vanguard dated April 1, 1963 (the Jug Band contract), that provided for an initial term until April 30, 1964 and provided for two options, each permitting Vanguard to extend the contract for one year by giving the Jug Band written notice at least 30 days prior to the expiration of the existing term of the contract. Thereafter, Kweskin entered into the recording contract with Vanguard dated April 17, 1963 (the solo contract), that also provided for an initial term until April 30, 1964 and for two options on the same terms as those in the Jug Band contract. In other respects, the provisions in the Jug Band contract are the same as those in the solo contract. Both contracts provide in part as follows:

- 1—We [Vanguard] hereby agree to employ your personal services as a recording artist for the purpose of making phonograph records and you [the Jug Band and Kweskin respectively] hereby agree to record solely and exclusively for us according to the terms and provisions of this agreement.
- 2— . . . A minimum of sixteen 45 or 78 rpm record sides shall be recorded during the initial term of this agreement, and additional recordings shall be made at our election. The musical compositions to be recorded shall be mutually agreed upon between you and us, and each recording shall be subject to our approval as satisfactory for manufacture and sale. We shall have the right to call upon you to repeat any work until a satisfactory master recording has been made. . . .
- 6—During the term of this agreement you will not perform for the purpose of making phonograph records for any person other than us, . . . and you acknowledge that your services are unique and extraordinary. . . .
- 11—If, by reason of illness, injury, accident or refusal to work, you fail to perform for us in accordance with the provisions of paragraph 2 of this agreement, . . . without limiting our rights in any such event, we shall have the option without liability to suspend operation of paragraph 2 of this agreement for the duration of any such contingency by giving you written notice thereof; and, at our election, a period of time equal to the duration of such suspension shall be added to the end of the then current period of the term hereof, and then such period and the term of this agreement shall be accordingly extended.

On February 23, 1967, Warner Bros. entered into a recording contract with the Jug Band (the Warner Bros. contract), and since that date, an LP album with recordings of the Jug Band has been made and 11,000 to 12,000 of the albums have been distributed at a cost of some \$21,000. According to the affidavit of its Vice-President, Warner Bros. is a financially solvent corporation with cash on hand in excess of \$10 million and a gross annual business of some \$24 million.

Vanguard contends that, for the reasons hereinafter stated, the solo contract, which had an initial term of one year running until April 30, 1964, is still in effect, and that it is entitled to a preliminary injunction. (Vanguard also claims that the Jug Band contract is still in effect, but in its motion it is relying only on the solo contract.) At oral argument, all parties agreed that determination of the motion for a preliminary injunction did not require an evidentiary hearing.

It is Vanguard's position that Kweskin refused to perform from March 3, 1964 to April 21, 1965 (a period of 1 year, 1 month and 18 days), justifying Vanguard in suspending the solo contract under paragraph 11 and in adding this period to the then current term of the contract, thereby extending it until April 21, 1966. Since the suspension continued after the expiration of the original term of the contract, viz., April 30, 1964, Vanguard argues that for purposes of paragraph 11, the original term did not end on April 30, 1964, but ended when Vanguard lifted the suspension on April 21, 1965, and that it was entitled to add the period of suspension to the new date, April 21, 1965. Vanguard then renewed the solo contract until April 21, 1967 under the first option and until April 21, 1968 under the second option. On January 12, 1967 Vanguard again suspended the solo contract under paragraph 11 and claims that the contract is now in its second year with more than a year remaining before it expires. Vanguard contends that Kweskin ratified its interpretation of the contract by performing under the solo contract on July 11, 19 and 20, 1966 and on August 18 and 22, 1966.

Kweskin, on the other hand, denies that his performances make Vanguard's

interpretation of the contract binding on him, and contends that even if the solo contract was still in effect in July and August 1966, two letters from Vanguard to him dated July 27, 1966 and August 22, 1966 released him from any obligations he had thereunder. Vanguard denies that these letters constituted a release, claiming that they were an offer that Vanguard withdrew by letter to Kweskin and the Jug Band dated November 29, 1966.

Vanguard's motion for a preliminary injunction must be denied since the affidavits, exhibits and pleadings before the court evidence issues of fact which can only be resolved at trial. . . .

These issues of fact include, but are not limited to, the following:

(1) If, as appears from the papers before the court, the Warner Bros. contract is with the Jug Band and not with Kweskin individually, does the solo contract give Vanguard the right to enjoin performances by the Jug Band? The solo contract appears to relate only to performances by Kweskin as an individual and not to performances by him as a member of the Jug Band.

(2) Did Kweskin refuse to perform under the solo contract?

(3) If Kweskin did refuse to perform, which he denies, did such refusal end by June 12, 1964 as Kweskin contends or did it continue until April 21, 1965 as Vanguard contends?

(4) Did Kweskin ratify Vanguard's interpretation of the solo contract by performing for Vanguard on July 11, 19 and 20, 1966 and on August 18 and 22, 1966?

(5) If the solo contract was in effect in July and August 1966, did Vanguard, by reason of the letters from Vanguard to Kweskin dated July 27, 1966 and August 22, 1966, release Kweskin from his obligations?

(6) Assuming that Kweskin is still bound by the solo contract, are his services so unique and extraordinary as to warrant the issuance of an injunction? . . .

Vanguard has not shown that it is reasonably certain to prevail at trial or that it will suffer irreparable injury outweighing the harm that a preliminary injunction is likely to cause to Kweskin and other members of the Jug Band. . . .

There is serious doubt that Vanguard is correct in interpreting paragraph 11 of the solo contract so as to give it the right to extend the contract until April 21, 1966. Under paragraph 11 Vanguard could add a period of time equal to the duration of any suspension to the end of the then current term of the contract. Since the initial term was to expire on April 30, 1964, the period of suspension could only extend the contract until sometime in June 1965 rather than until April 21, 1966. Vanguard so interpreted paragraph 11 in the Jug Band contract (letter of July 8, 1966 from Vanguard to Kweskin and the Jug Band), and this appears more reasonable than the construction here urged. If the suspension extended the solo contract only until June 1965, then on April 21, 1965 the contract would have approximately two months more to run and Vanguard would receive the same period of performance as it would have received had there been no suspension. On the other hand, if the suspension extended the contract until April 21, 1966, then Vanguard would receive a period of performance that was 10 months longer than the period of performance it would have otherwise received.

If Vanguard was entitled to extend the solo contract only until June 1965, then Vanguard did not validly exercise the first and second options to renew and the contract would not presently be in effect.

According to Vanguard's interpretation of the solo contract, it is entitled to

turn a one-year contract with two one-year renewal options into a contract that will run for more than five years. If Vanguard's interpretation of the contract is correct, it would appear that the contract was harsh and unreasonable and on equitable grounds the court would decline to issue a preliminary injunction. . . .

Vanguard has not shown that it is reasonably certain to prove at trial that Kweskin ratified its interpretation of the contract . . . or that the letters of July and August 1966 did not release Kweskin.

Even if Vanguard had made a stronger showing of probable success at trial, Vanguard's motion would be denied in the exercise of the court's discretion because Vanguard has not shown that if a preliminary injunction is denied it will suffer irreparable injury outweighing the harm that a preliminary injunction is likely to cause to the defendants and other members of the Jug Band. . . . It appears that Warner Bros. will be able to respond in full to any damages Vanguard proves at trial it is entitled to recover. On the other hand, a preliminary injunction is likely to restrain performances by the other members of the Jug Band as well as Kweskin since they and Kweskin perform as a group. Moreover, it appears that Warner Bros. has already begun the distribution of its album with the recordings of the Jug Band, has entered into contracts for the distribution of the album, and has incurred substantial advertising expenses.

The foregoing constitutes the court's findings of fact and conclusions of law. Rule 52(a), F.R.Civ.P.

Vanguard's motion for a preliminary injunction is denied.

It is so ordered.

**American Broadcasting Cos., Inc. v. Wolf, 52 N.Y.2d 398, 438 N.Y.S.2d
482 (1981)**

COOKE, CHIEF JUDGE

This case provides an interesting insight into the fierce competition in the television industry for popular performers and favorable ratings. It requires legal resolution of a rather novel employment imbroglio.

The issue is whether plaintiff American Broadcasting Companies, Incorporated (ABC), is entitled to equitable relief against defendant Warner Wolf, a New York City sportscaster, because of Wolf's breach of a good faith negotiation provision of a now expired broadcasting contract with ABC. In the present circumstances, it is concluded that the equitable relief sought by plaintiff—which would have the effect of forcing Wolf off the air—may not be granted.

I.

Warner Wolf, a sportscaster who has developed a rather colorful and unique on-the-air personality, had been employed by ABC since 1976. In February 1978, ABC and Wolf entered into an employment agreement which, following exercise of renewal option, was to terminate on March 5, 1980. The contract contained a clause, known as a good-faith negotiation and first-refusal provision, that is at the crux of this litigation: "You agree, if we so elect, during the last ninety (90) days prior to the expiration of the extended term of this agreement, to enter into good faith negotiations with us for the extension of this agreement on mutually agreeable terms. You further agree that for the first forty-five (45) days of this renegotiation period, you will not negotiate for your services with any other person or company other than WABC-TV or ABC. In the event we are unable to reach

an agreement for an extension by the expiration of the extended term hereof, you agree that you will not accept, in any market for a period of three (3) months following expiration of the extended term of this agreement, any offer of employment as a sportscaster, sports news reporter, commentator, program host, or analyst in broadcasting (including television, cable television, pay television and radio) without first giving us, in writing, an opportunity to employ you on substantially similar terms, and you agree to enter into an agreement with us on such terms." Under this provision, Wolf was bound to negotiate in good faith with ABC for the 90-day period from December 6, 1979, through March 4, 1980. For the first 45 days, December 6 through January 19, the negotiation with ABC was to be exclusive. Following expiration of the 90-day negotiating period and the contract on March 5, 1980, Wolf was required, before *accepting* any other offer, to afford ABC a right of first refusal; he could comply with this provision either by refraining from accepting another offer or by first tendering the offer to ABC. The first-refusal period expired on June 3, 1980, and on June 4 Wolf was free to accept any job opportunity, without obligation to ABC.

Wolf first met with ABC executives in September 1979 to discuss the terms of a renewal contract. Counterproposals were exchanged, and the parties agreed to finalize the matter by October 15. Meanwhile, unbeknownst to ABC, Wolf met with representatives of CBS in early October. Wolf related his employment requirements and also discussed the first refusal-good faith negotiation clause of his ABC contract. Wolf furnished CBS a copy of that portion of the ABC agreement. On October 12, ABC officials and Wolf met, but were unable to reach agreement on a renewal contract. A few days later, on October 16, Wolf again discussed employment possibilities with CBS.

Not until January 2, 1980, did ABC again contact Wolf. At that time, ABC expressed its willingness to meet substantially all of his demands. Wolf rejected the offer, however, citing ABC's delay in communicating with him and his desire to explore his options in light of the impending expiration of the 45-day exclusive negotiation period.

On February 1, 1980, after termination of that exclusive period, Wolf and CBS orally agreed on the terms of Wolf's employment as sportscaster for WCBS-TV, a CBS-owned affiliate in New York. During the next two days, CBS informed Wolf that it had prepared two agreements and divided his annual compensation between the two: one covered his services as an on-the-air sportscaster, and the other was an off-the-air production agreement for sports specials Wolf was to produce. The production agreement contained an exclusivity clause which barred Wolf from performing "services of any nature for" or permitting the use of his "name, likeness, voice or endorsement by, any person, firm, or corporation" during the term of the agreement, unless CBS consented. The contract had an effective date of March 6, 1980.

Wolf signed the CBS production agreement on February 4, 1980. At the same time, CBS agreed in writing, in consideration of \$100 received from Wolf, to hold open an offer of employment to Wolf as sportscaster until June 4, 1980, the date on which Wolf became free from ABC's right of first refusal. The next day, February 5, Wolf submitted a letter of resignation to ABC.

Representatives of ABC met with Wolf on February 6 and made various offers and promises that Wolf rejected. Wolf informed ABC that they had delayed negotiations with him and downgraded his worth. He stated he had no future with the company. He told the officials he had made a "gentlemen's agreement"

and would leave ABC on March 5. Later in February, Wolf and ABC agreed that Wolf would continue to appear on the air during a portion of the first-refusal period, from March 6 until May 28. (The agreement also provided that on or after June 4, 1980, Wolf was free to “accept an offer of employment with anyone of [his] choosing and immediately begin performing on-air services.” The parties agreed that their rights and obligations under the original employment contract were in no way affected by the extension of employment. [Note in original])

ABC commenced this action on May 6, 1980, by which time Wolf’s move to CBS had become public knowledge. The complaint alleged that Wolf, induced by CBS, breached both the good-faith negotiation and first-refusal provisions of his contract with ABC. ABC sought specific enforcement of its right of first refusal and an injunction against Wolf’s employment as a sportscaster with CBS.

After a trial, Supreme Court found no breach of the contract, and went on to note that, in any event, equitable relief would be inappropriate. A divided Appellate Division, while concluding that Wolf had breached both the good-faith negotiation and first-refusal provisions, nonetheless affirmed on the ground that equitable intervention was unwarranted. There should be an affirmance.

II.

Initially, we agree with the Appellate Division that defendant Wolf breached his obligation to negotiate in good faith with ABC from December, 1979 through March 1980. When Wolf signed the production agreement with CBS on February 4, 1980, he obligated himself not to render services “of any nature” to any person, firm or corporation on and after March 6, 1980. Quite simply, then, beginning on February 4, Wolf was unable to extend his contract with ABC; his contract with CBS precluded him from legally serving ABC in any capacity after March 5. Given Wolf’s existing obligation to CBS, any negotiations he engaged in with ABC, without the consent of CBS, after February 4 were meaningless and could not have been in good faith.

At the same time, there is no basis in the record for the Appellate Division’s conclusion that Wolf violated the first-refusal provision by entering into an oral sportscasting contract with CBS on February 4. The first-refusal provision required Wolf, for a period of 90 days after termination of the ABC agreement, either to refrain from accepting an offer of employment or to first submit the offer to ABC for its consideration. By its own terms, the right of first refusal did not apply to offers accepted by Wolf prior to the March 5 termination of the ABC employment contract. It is apparent, therefore, that Wolf could not have breached the right of first refusal by accepting an offer during the term of his employment with ABC. (In any event, the carefully tailored written agreement between Wolf and CBS consisted only of an option prior to June 4, 1979. Acceptance of CBS’s offer of employment as a sportscaster did not occur until after the expiration of the first-refusal period on June 4, 1979. [Note in original]) Rather, his conduct violates only the good-faith negotiation clause of the contract. The question is whether this breach entitled ABC to injunctive relief that would bar Wolf from continued employment at CBS. To resolve this issue, it is necessary to trace the principles of specific performance applicable to personal service contracts.

III.

—A—

Courts of equity historically have refused to order an individual to perform a contract for personal services (e.g., 4 Pomeroy, *Equity Jurisprudence* [5th ed.], 1343, at pp. 943–944; 5A Corbin, *Contracts*, 1204; see *Haight v. Badgeley*, 15 Barb. 499; Willard, *Equity Jurisprudence*, at pp. 276–279). Originally this rule evolved because of the inherent difficulties courts would encounter in supervising the performance of uniquely personal efforts (e.g., 4 Pomeroy, *Equity Jurisprudence*, 1343; 5A Corbin, *Contracts*, 1204; see, also, *De Rivafinoli v. Corsetti*, 4 Paige Ch. 264, 270). During the Civil War era, there emerged a more compelling reason for not directing the performance of personal services: the Thirteenth Amendment’s prohibition of involuntary servitude. It has been strongly suggested that judicial compulsion of services would violate the express command of that amendment (*Arthur v. Oakes*, 63 F. 310, 317; Stevens, *Involuntary Servitude by Injunction*, 6 Corn.L.Q. 235; Calamari & Perillo, *The Law of Contracts* [2d ed.], 16–5). For practical, policy and constitutional reasons, therefore, courts continue to decline to affirmatively enforce employment contracts.

Over the years, however, in certain narrowly tailored situations, the law fashioned other remedies for failure to perform an employment agreement. Thus, where an employee refuses to render services to an employer in violation of an existing contract, and the services are unique or extraordinary, an injunction may issue to prevent the employee from furnishing those services to another person for the duration of the contract (see, e.g., *Shubert Theatrical Co. v. Gallagher*, 206 App. Div. 514, 201 N.Y.S. 577). Such “negative enforcement” was initially available only when the employee had expressly stipulated not to compete with the employer for the term of the engagement (see, e.g., *Lumley v. Wagner*, 1 De G.M.&G. 604, 42 Eng. Rep. 687; *Shubert Theatrical Co. v. Rath*, 271 F. 827, 830–833; 4 Pomeroy, *Equity Jurisprudence* [5th ed.], 1343, at p. 944). Later cases permitted injunctive relief where the circumstances justified implication of a negative covenant (see, e.g., *Montague v. Flockton*, L. R. 16 Eq. 189 [1873], 4 Pomeroy, *Equity Jurisprudence* [5th ed.], 1343; 5A Corbin, *Contracts*, 1205). In these situations, an injunction is warranted because the employee either expressly or by clear implication agreed not to work elsewhere for the period of his contract. And, since the services must be unique before negative enforcement will be granted, irreparable harm will befall the employer should the employee be permitted to labor for a competitor (see 5A Corbin, *Contracts*, 1206, at p. 412).

—B—

After a personal service contract terminates, the availability of equitable relief against the former employee diminishes appreciably. Since the period of service has expired, it is impossible to decree affirmative or negative specific performance. Only if the employee has expressly agreed not to compete with the employer following the term of the contract, or is threatening to disclose trade secrets or commit another tortious act, is injunctive relief generally available at the behest of the employer (see, e.g., *Reed, Roberts Assoc. v. Strauman*, 40 N.Y.2d 303, 386 N.Y.S.2d 677, 353 N.E.2d 590; *Purchasing Assoc. v. Weitz*, 13 N.Y.2d 267, 246 N.Y.S.2d 600, 196 N.E.2d 245; *Town & Country House & Home Serv.*

v. Newbery, 3 N.Y.2d 554, 170 N.Y.S.2d 328, 147 N.E.2d 724). Even where there is an express anticompetitive covenant, however, it will be rigorously examined and specifically enforced only if it satisfies certain established requirements (see, e.g., *Reed, Roberts Assoc. v. Strauman*, *supra*, 40 N.Y.2d at pp. 307–308, 386 N.Y.S.2d 677, 353 N.E.2d 590; *Purchasing Assoc. v. Weitz*, *supra*, at pp. 272–273; see, generally, Calamari & Perillo, *The Law of Contracts* [2d ed.], 16–19, at pp. 601–602). Indeed, a court normally will not decree specific enforcement of an employee’s anticompetitive covenant unless necessary to protect the trade secrets, customer lists or good will of the employer’s business, or perhaps when the employer is exposed to special harm because of the unique nature of the employee’s services (see, e.g., *Reed, Roberts Assoc. v. Strauman*, *supra*, 40 N.Y.2d at p. 308, 386 N.Y.S.2d 677, 353 N.E.2d 590; *Purchasing Assoc. v. Weitz*, *supra*, 13 N.Y.2d at pp. 272–273, 246 N.Y.S.2d 600, 196 N.E.2d 245; *Lepel High Frequency Labs. v. Capita*, 278 N.Y. 661, 16 N.E.2d 392, affg. 253 App.Div. 799, 2 N.Y.S.2d 628; 6A Corbin, *Contracts*, 1394). And, an otherwise valid covenant will not be enforced if it is unreasonable in time, space, or scope or would operate in a harsh or oppressive manner (e.g., *Reed, Roberts Assoc. v. Strauman*, 40 N.Y.2d, at p. 307, 386 N.Y.S.2d 677, 353 N.E.2d 590 *supra*; *Clark Paper & Mfg. Co. v. Stenacher*, 236 N.Y. 312, 140 N.E. 708; 6A Corbin, *Contracts*, 1394). There is, in short, general judicial disfavor of anticompetitive covenants contained in employment contracts (e.g., *Reed, Roberts Assoc. v. Strauman*, *supra*, 40 N.Y.2d at p. 307, 386 N.Y.S.2d 677, 353 N.E.2d 590).

Underlying the strict approach to enforcement of these covenants is the notion that, once the term of an employment agreement has expired, the general public policy favoring robust and uninhibited competition should not give way merely because a particular employer wishes to insulate himself from competition (e.g., *Clark Paper & Mfg. Co. v. Stenacher*, 236 N.Y. 312, 319–320, 140 N.E. 708, *supra*; 6A Corbin, *Contracts*, 1394, at p. 100). Important, too, are the “powerful considerations of public policy which militate against sanctioning the loss of a man’s livelihood” (*Purchasing Assoc. v. Weitz*, 13 N.Y.2d at p. 272, 246 N.Y.S.2d 600, 196 N.E.2d 245, *supra*). At the same time, the employer is entitled to protection from unfair or illegal conduct that causes economic injury. The rules governing enforcement of anticompetitive covenants and the availability of equitable relief after termination of employment are designed to foster these interests of the employer without impairing the employee’s ability to earn a living or the general competitive mold of society.

—C—

Specific enforcement of personal service contracts thus turns initially upon whether the term of employment has expired. If the employee refuses to perform during the period of employment, was furnishing unique services, has expressly or by clear implication agreed not to compete for the duration of the contract, and the employer is exposed to irreparable injury, it may be appropriate to restrain the employee from competing until the agreement expires. Once the employment contract has terminated, by contrast, equitable relief is potentially available only to prevent injury from unfair competition or similar tortious behavior or to enforce an express and valid anticompetitive covenant. In the absence of such circumstances, the general policy of unfettered competition should prevail.

IV.

Applying these principles, it is apparent that ABC's request for injunctive relief must fail. There is no existing employment agreement between the parties; the original contract terminated in March 1980. Thus, the negative enforcement that might be appropriate during the term of employment is unwarranted here. Nor is there an express anticompetitive covenant that defendant Wolf is violating, or any claim of special injury from tortious conduct such as exploitation of trade secrets. In short, ABC seeks to premise equitable relief after termination of the employment upon a simple, albeit serious, breach of a general contract negotiation clause. (Even if Wolf had breached the first-refusal provision, it does not necessarily follow that injunctive relief would be available. Outside the personal service area, the usual equitable remedy for breach of a first-refusal clause is to order the breaching party to perform the contract with the person possessing the first-refusal right (e.g., 5A Corbin, *Contracts*, 1197, at pp. 377-378). When personal services are involved, this would result in an affirmative injunction ordering the employee to perform services for plaintiff. Such relief, as discussed, cannot be granted.[Note in original]) To grant an injunction in that situation would be to unduly interfere with an individual's livelihood and to inhibit free competition where there is no corresponding injury to the employer other than the loss of a competitive edge. Indeed, if relief were granted here, any breach of an employment contract provision relating to renewal negotiations logically would serve as the basis for an open-ended restraint upon the employee's ability to earn a living should he ultimately choose not to extend his employment. Our public policy, which favors the free exchange of goods and services through established market mechanisms, dictates otherwise.

Equally unavailing is ABC's request that the court create a noncompetitive covenant by implication. Although in a proper case an implied-in-fact covenant not to compete for the term of employment may be found to exist, anticompetitive covenants covering the postemployment period will not be implied. Indeed, even an express covenant will be scrutinized and enforced only in accordance with established principles.

This is not to say that ABC has not been damaged in some fashion or that Wolf should escape responsibility for the breach of his good-faith negotiation obligation. Rather, we merely conclude that ABC is not entitled to equitable relief. Because of the unique circumstances presented, however, this decision is without prejudice to ABC's right to pursue relief in the form of monetary damages, if it be so advised.

Accordingly, the order of the Appellate Division should be affirmed.

FUCHSBERG, JUDGE (dissenting)

I agree with all the members of this court, as had all the Justices at the Appellate Division, that the defendant Wolf breached his undisputed obligation to negotiate in good faith for renewal of his contract with ABC. Where we part company is in the majority's unwillingness to mold an equitable decree, even one more limited than the harsh one the plaintiff proposed, to right the wrong.

Central to the disposition of this case is the first-refusal provision. . . .

One need not be in the broadcasting business to understand that the restriction ABC bargained for, and Wolf granted, when they entered into the original employment contract was not inconsequential. The earnings of broadcasting com-

panies are directly related to the “ratings” they receive. This, in turn, is at least in part dependent on the popularity of personalities like Wolf. It therefore was to ABC’s advantage, once Wolf came into its employ, especially since he was new to the New York market, that it enhance his popularity by featuring, advertising and otherwise promoting him. This meant that the loyalty of at least part of the station’s listening audience would become identified with Wolf, thus enhancing his potential value to competitors, as witness the fact that, in place of the \$250,000 he was receiving during his last year with ABC, he was able to command \$400,000 to \$450,000 per annum in his CBS “deal.” A reasonable opportunity during which ABC could cope with such an assault on its good will had to be behind the clause in question.

Moreover, it is undisputed that, when in late February Wolf executed the contract for an extension of employment during the 90-day hiatus for which the parties had bargained, ABC had every right to expect that Wolf had not already committed himself to an exclusivity provision in a producer’s contract with CBS in violation of the good-faith negotiation clause (see majority opn. at pp. 397–398, at p. 483 of 438 N.Y.S.2d, at p. 364 of 420 N.E.2d). Surely, had ABC been aware of this gross breach, had it not been duped into giving an uninformed consent, it would not have agreed to serve as a self-destructive vehicle for the further enhancement of Wolf’s potential for taking his ABC-earned following with him.

In the face of these considerations, the majority rationalizes its position of powerlessness to grant equitable relief by choosing to interpret the contract as though there were no restrictive covenant, express or implied. However, as demonstrated, there is, in fact, an express three-month negative covenant which, because of Wolf’s misconduct, ABC was effectively denied the opportunity to exercise. Enforcement of this covenant, by enjoining Wolf from broadcasting for a three-month period, would depart from no entrenched legal precedent. Rather, it would accord with equity’s boasted flexibility (see 11 Williston, *Contracts* [3d ed.], 1450, at pp. 1043–1044; 6A Corbin, *Contracts*, 1394, at p. 100; see, generally, 20 N.Y.Jur. [rev.], *Equity*, 79, 83, 84).

That said, a few words are in order regarding the majority’s insistence that Wolf did not breach the first-refusal clause. It is remarkable that, to this end, it has to ignore its own crediting of the Appellate Division’s express finding that, as far back as February 1, 1980, fully a month before the ABC contract was to terminate, “Wolf and CBS orally agreed on the terms of Wolf’s employment as sportscaster for WCBS-TV” (majority opn., at p. 399, at p. 484 of 438 N.Y.S.2d, at p. 365 of 420 N.E.2d; see *American Broadcasting Cos. v. Wolf*, 76 A.D.2d 162, 166, 170–171, 430 N.Y.S.2d 275). It follows that the overt written CBS-Wolf option contract, which permitted Wolf to formally accept the CBS sportscasting offer at the end of the first-refusal period, was nothing but a charade.

Further, on this score, the majority’s premise that Wolf could not have breached the first-refusal clause when he accepted the producer’s agreement, exclusivity provision and all, *during* the term of his ABC contract, does not withstand analysis. So precious a reading of the arrangement with ABC frustrates the very purpose for which it had to have been made. Such a classical exaltation of form over substance is hardly to be countenanced by equity (see *Washer v. Seager*, 272 App.Div. 297, 71 N.Y.S.2d 46, *aff’d* 297 N.Y. 918, 79 N.E.2d 745).

For all these reasons, in my view, literal as well as proverbial justice should have brought a modification of the order of the Appellate Division to include a

90-day injunction—no more and no less than the relatively short and certainly not unreasonable transitional period for which ABC and Wolf struck their bargain. . . .

NOTES

1. On the other hand, in *Zink Communication v. Elliott*, 1990 WL 176382 (S.D.N.Y.), *aff'd* without opinion, 923 F.2d 846 (2d Cir. 1990), the defendant's breach of a contract with the plaintiff to host a television game show which was being developed by the plaintiff for the Fox network and subsequent contract with a competing production company to host another game show ("To Tell the Truth") resulted in the issuance of a permanent injunction barring the defendant from appearing on the "To Tell the Truth" or any other game show. After determining that the plaintiff had properly exercised its option to employ Zink on an exclusive basis to host its game show, "Get the Picture," the court distinguished *Wolf* on the basis that it involved a contract for employment which had expired, while in the case at hand the contract for employment had not expired. The decision then applied the four elements (articulated in *Wolf*) required for the issuance of an injunction: failure to perform during period of employment, an exclusive underlying agreement, unique services, and irreparable harm to the plaintiff. The most difficult issues were whether Gordon Elliott's attributes as a game show host were sufficient to meet the "uniqueness" requirement and whether irreparable harm was shown. While actual harm was not established, the court, relying on equitable principle of fair dealing and policy considerations in the face of a defendant who breached a contract "with impunity," found a sufficient showing of harm with respect to the respective game shows.

2. In *KGB Inc. v. Giannoulas*, 164 Cal.Rptr., 571, 104 Ca.App. 3d 844 (1980), the California Court of Appeals vacated an injunction against the former employee of a radio station which prevented him from wearing a chicken suit, a costume he had worn while appearing as the station's mascot. The court expressed a number of concerns regarding the injunction, including the fact that there was no showing of irreparable harm. In addition, the court addressed the fact that the employer was seeking an injunction after the term of the contract:

In California under section 16600 [of the Business & Professions Code], even reasonableness may not save an injunction like that here. There is authority in California for enjoining employee performance, after breach of an entertainment contract, *during the term of the contract*, under Civil Code section 3423, permitting injunctions for breach of special service contracts. (See *MCA Records, Inc. v. Newton-John*, 90 Cal.App. 3d 18, 23, 153 Cal.Rptr. 153., which is discussed in Sec. 2.4, above) The court in *Newton-John*, however, expressed grave doubts whether such an injunction would be legal beyond the term of the employment contract. (*Id.* at p. 24, 153 Cal.Rptr. 153.) Those doubts are shared by the court in *Lemat Corp. v. Barry*, 275 Cal.App. 2d 671, 679, 80 Cal.Rptr. 240; see also dictum in *Loew's Inc. v. Cole* (9th Cir. 1950) 185 F.2d 641, 657. Here the written contract of employment expired on September 15, 1979, if it was not sooner terminated, as alleged, in late May 1979.

3. As the preceding note indicates, courts tend to be hostile toward attempts of employers to prevent former employees from earning a living. This tendency is further illustrated by *Earthweb, Inc. v. Schlack*, 71 F. Supp. 2d 299 (S.D.N.Y. 1999), in which the court found a one-year post-employment non-competition clause excessive where a "dot com" employee moved from one Internet-based company to another. (It should be noted that in an officially unreported opinion, which appears at 205 F.3d 1322, 2000 WL 232057 (2d Cir. 2000), the Second Circuit remanded the case to the district court for clarification concerning his grounds for denial of preliminary injunction.) The court rejected the former employer's contention that the employee would inevitably disclose the former employer's trade secrets. In *Nigra v. Young Broadcasting of Albany, Inc.*, No. 3338-98, Supreme Court, Albany County, the court ruled that an on-air personality who had performed for station WTEN for ten years, and who had strong and long-standing family ties in the Albany, New York, area, was not sufficiently unique to be barred from working for another

station in the same area (at a salary considerably higher than that offered by WTEN) and should not be required to move to another area to obtain employment. However, in *Midwest Television, Inc. v. Oloffson*, 298 Ill. App. 3d 548, 699 N.E.2d 230 (1st Dist. 1998), the court held that the station had demonstrated sufficient “permanence” in its relationship with its audience, and sufficient uniqueness in the on-air personality, to enforce a one-year, 100-mile non-competition radius.

4. If an injunction cannot be obtained against the performer to prevent the performer from working for a third party, can the company instead obtain an injunction against the third party to prevent the performer from working for the third party? At least in California, the answer seems to be *no*. See *Beverly Glen Music, Inc. v. Warner Communications Inc.*, 178 Cal. App. 3d 1142, 224 Cal.Rptr. 260 (Cal.Ct.App. 1986), in which the court observed that to grant an injunction preventing a second record company from utilizing the artist’s services would be the functional equivalent of an injunction against the artist (which was unavailable under the California injunction statutes).

5. As to the duration of an injunction, it is generally held that the injunction will endure for the duration of the term of the contract including all unexercised option periods. See *Warner Bros Pictures v. Brodel*, 31 Cal.2d 766, 192 P.2d 949 (1948). However, English courts generally will not issue an injunction for the entire contract period, as held in *Warner Bros. Pictures v. Nelson*, 1 K.B. 209 (1937).

6. Of course, not all negative covenants seek to bar a performer totally from performing for third parties. Recording agreements typically provide (the clause is customarily referred to as the “rerecording restriction”) that the artist will not re-record material recorded for the record label for a certain period of time, generally a number of years succeeding both the recording of the material and the termination of the recording agreement. Usually, the negative covenant runs for five years from release of the artist’s recording of the material for the first label or until two years after the expiration of the term of the recording agreement with the first label, whichever is later.

6.4 DAMAGES

The traditional remedy for breaches of entertainment industry contracts is damages. However, there must be a reasonable foundation upon which an award of damages may be calculated, which, in turn, requires some sort of “track record.” As we see in the case which follows, the absence of a track record can lead to a very unsatisfying result for a disappointed creator.

Freund v. Washington Square Press, Inc., 34 N.Y.2d 379, 357 N.Y.S.2d 857 (1974)

SAMUEL RABIN, JUDGE

In this action for a breach of a publishing contract, we must decide what damages are recoverable for defendant’s failure to publish plaintiff’s manuscript. In 1965, plaintiff, an author and a college teacher, and defendant, Washington Square Press, Inc., entered into a written agreement which, in relevant part, provided as follows. Plaintiff (“author”) granted defendant (“publisher”) exclusive rights to publish and sell in book form plaintiff’s work on modern drama. Upon plaintiff’s delivery of the manuscript, defendant agreed to complete payment of a nonreturnable \$2,000 “advance.” Thereafter, if defendant deemed the manuscript not “suitable for publication,” it had the right to terminate the agreement by written notice within 60 days of delivery. Unless so terminated, defendant agreed to publish the work in hardbound edition within 18 months and afterwards in paperback edition. The contract further provided that defendant would pay roy-

alties to plaintiff, based upon specified percentages of sales. (For example, plaintiff was to receive 10% of the retail price of the first 10,000 copies sold in the continental United States.) If defendant failed to publish within 18 months, the contract provided that “this agreement shall terminate and the rights herein granted to publisher shall revert to the Author. In such event all payments theretofore made to the Author shall belong to the Author without prejudice to any other remedies which the Author may have.” The contract also provided that controversies were to be determined pursuant to the New York simplified procedure for court determination of disputes (CPLR 3031–3037, *Consol. Laws, c.8*).

Plaintiff performed by delivering his manuscript to defendant and was paid his \$2,000 advance. Defendant thereafter merged with another publisher and ceased publishing in hardbound. Although defendant did not exercise its 60-day right to terminate, it has refused to publish the manuscript in any form.

Plaintiff commenced the instant action pursuant to the simplified procedure practice and initially sought specific performance of the contract. The Trial Term Justice denied specific performance but, finding a valid contract and a breach by defendant, set the matter down for trial on the issue of monetary damages, if any, sustained by the plaintiff. At trial, plaintiff sought to prove: (1) delay of his academic promotion; (2) loss of royalties which would have been earned; and (3) the cost of publication if plaintiff had made his own arrangements to publish. The trial court found that plaintiff had been promoted despite defendant’s failure to publish, and that there was no evidence that the breach had caused any delay. Recovery of lost royalties was denied without discussion. The court found, however, that the cost of hardcover publication to plaintiff was the natural and probable consequence of the breach and, based upon expert testimony, awarded \$10,000 to cover this cost. It denied recovery of the expenses of paperbound publication on the ground that plaintiff’s proof was conjectural.

The Appellate Division (3 to 1) affirmed, finding that the cost of publication was the proper measure of damages. In support of its conclusion, the majority analogized to the construction contract situation where the cost of completion may be the proper measure of damages for a builder’s failure to complete a house or for use of wrong materials. The dissent concluded that the cost of publication is not an appropriate measure of damages and consequently, that plaintiff may recover nominal damages only. We agree with the dissent. In so concluding, we look to the basic purpose of damage recovery and the nature and effect of the parties’ contract.

It is axiomatic that, except where punitive damages are allowable, the law awards damages for breach of contract to compensate for injury caused by the breach-injury which was foreseeable, i.e., reasonably within the contemplation of the parties, at the time the contract was entered into. . . .

In other words, so far as possible, the law attempts to secure to the injured party the benefit of his bargain, subject to the limitations that the injury—whether it be losses suffered or gains prevented—was foreseeable, and that the amount of damages claimed be measurable with a reasonable degree of certainty and, of course, adequately proven. . . . But it is equally fundamental that the injured party should not recover more from the breach than he would have gained had the contract been fully performed. . . .

Measurement of damages in this case according to the cost of publication to the plaintiff would confer greater advantage than performance of the contract would have entailed to plaintiff and would place him in a far better position than

he would have occupied had the defendant fully performed. Such measurement bears no relation to compensation for plaintiff's actual loss or anticipated profit. Far beyond compensating plaintiff for the interests he had in defendant's performance of the contract—whether restitution, reliance or expectation (see Fuller & Perdue, "Reliance Interest in Contract Damages," 46 *Yale L.J.* 52, 53–56)—an award of the cost of publication would enrich plaintiff at defendant's expense.

Pursuant to the contract, plaintiff delivered his manuscript to the defendant. In doing so, he conferred a value on the defendant which, upon defendant's breach, was required to be restored to him. Special term, in addition to ordering a trial on the issue of damages, ordered defendant to return the manuscript to plaintiff and plaintiff's restitution interest in the contract was thereby protected. . . .

At the trial on the issue of damages, plaintiff alleged no reliance losses suffered in performing the contract or in making necessary preparations to perform. Had such losses, if foreseeable and ascertainable, been incurred, plaintiff would have been entitled to compensation for them. . . .

As for plaintiff's expectation interest in the contract, it was basically two-fold—the "advance" and the royalties. (To be sure, plaintiff may have expected to enjoy whatever notoriety, prestige or other benefits that might have attended publication, but even if these expectations were compensable, plaintiff did not attempt at trial to place a monetary value on them.) There is no dispute that plaintiff's expectancy in the "advance" was fulfilled—he has received his \$2,000. His expectancy interest in the royalties—the profit he stood to gain from the sale of the published book—while theoretically compensable, was speculative. Although this work is not plaintiff's first, at trial he provided no stable foundation for a reasonable estimate of royalties he would have earned had defendant not breached its promise to publish. In these circumstances, his claim for royalties fails for uncertainty. . . .

Since the damages which would have compensated plaintiff for anticipated royalties were not proved with required certainty, we agree with the dissent in the Appellate Division that nominal damages alone are recoverable. . . . Though these are damages in name only and not at all compensatory, they are nevertheless awarded as a formal vindication of plaintiff's legal right to compensation which has not been given a sufficiently certain monetary valuation. . . .

In our view, the analogy by the majority in the Appellate Division to the construction contract situation is inapposite. In the typical construction contract, the owner agrees to pay money or other consideration to a builder and expects, under the contract, to receive a completed building in return. The value of the promised performance to the owner is the properly constructed building. In this case, unlike the typical construction contract, the value to *plaintiff* of the promised performance—publication—was a percentage of sales of books published and not the books themselves. had the plaintiff contracted for the printing, binding and delivery of a number of hardbound copies of his manuscript, to be sold or disposed of as he wished, then perhaps the construction analogy, and measurement of damages by the cost of replacement or completion, would have some application.

Here, however, the specific value to plaintiff of the promised publication was the royalties he stood to receive from defendant's sales of the published book. Essentially, publication represented what it would have cost the defendant to confer that value upon the plaintiff, and, by its breach, defendant saved that cost.

The error by the courts below was in measuring damages not by the value to plaintiff of the promised performance but by the cost of that performance to defendant. Damages are not measured, however, by what the defaulting party saved by the breach, but by the natural and probable consequences of the breach to the plaintiff. In this case, the consequence to plaintiff of defendant's failure to publish is that he is prevented from realizing the gains promised by the contract—the royalties. But, as we have stated, the amount of royalties plaintiff would have realized was not ascertained with adequate certainty and, as a consequence, plaintiff may recover nominal damages only.

Accordingly, the order of the Appellate Division should be modified to the extent reducing the damage award of \$10,000 for the cost of publication to six cents, but with costs and disbursements to the plaintiff.

NOTES

1. Although a negative injunction was granted against the recalcitrant host of a projected (then aborted) game show in *Zink Communication v. Elliott* (Sec. 6.3), the prospective producer was unable to recover damages from the production company which had signed away the host. Lost profits were not calculable with reasonable certainty where (a) the prospective producer had no track record in television production and (b) the show had tested poorly with focus groups. The claim was based solely upon “assumptions, speculation and conjecture.” *Zink v. Mark Goodson Productions, Inc.*, 261 A.D.2d 105,689 N.Y.S.2d 87 (1st Dept.), *app dismissed*, 94 N.Y.2d 858, 704 N.Y.S.2d 533 (1999).

2. Of course, where there is some plausible track record, and a method of predicting (albeit very roughly) the ultimate success of a project, damages will be awarded. As we saw in *Contemporary Mission, Inc. v. Famous Music Corporation*, 557 F.2d 918 (2d Cir. 1977) (which is discussed in Sec. 5.2.2, above), the plaintiff was permitted to offer evidence of the subsequent history (and sales performance) of songs which had achieved “chart” positions similar to that of plaintiff's song before defendant's abandonment of its relationship with plaintiff.

3. One way in which experienced creators (or, at least, creators with some negotiating power) avoid the necessity of providing a foundation for an award of damages is to include a liquidated damages clause. One such example is the so-called pay or play clause, in which the failure to utilize the services of a performer gives rise to an entitlement to a specified (or easily calculated) sum of money. In *Parker v. Twentieth Century-Fox Film Corporation*, 3 Cal.3d 176, 474 P.2d 689 (1970) (the creative control aspect of which is discussed in Sec. 5.3.1), actress Shirley MacLaine recovered a minimum “guaranteed compensation” of \$53,571.42 per week for 14 weeks commencing May 23, 1966, for a total of \$750,000, when the film she was to appear in (a musical, in which she was to be the sole lead performer) was canceled and she was offered instead the female lead in a western to be shot in Australia, a part which she declined. Because of the creative control provisions of her contract (which could not be honored due to time constraints) and the court's determination that the alternative casting was not reasonably equivalent to the part MacLaine would have played in the picture which the studio had canceled, the court held that she was entitled to invoke the pay or play clause.

4. The company can also benefit by including a pay or play clause, since, in a normal case, such a clause will protect the company against consequential damages. However, companies sometimes attempt to avoid the obligation of paying even the pay or play amount, with results that can be disastrous.

Such a case was *Welch v. Metro-Goldwyn-Mayer Film Co.*, 254 Cal.Rptr. 645 (Cal.App. 2d Dist. 1988), *judgment vacated*, 256 Cal.Rptr. 750 (1989). Raquel Welch, who had performed in 30 films between 1965 and 1980 and had a reputation “as a strong-willed professional actress who sometimes clashed with directors,” was hired to perform

one of the lead roles in “Cannery Row.” Debra Winger had also been considered for the part. During the casting process, Welch, eager for the opportunity, not only auditioned (something rarely asked of established actors) but agreed to play nude scenes (which she had previously refused to do). Welch signed for \$250,000, the contract containing a customary pay or play clause. Welch participated enthusiastically in pre-production, and into the early stages of principal photography. There was a problem with her make-up arrangements, which was resolved when the film company agreed to permit her to make up at home before reporting to the set. Studio chief David Begelman, however, was disappointed with her performance in the early days of shooting, and instead of invoking the pay or play clause (which would have required a payment to Welch of \$194,000) the company purported to terminate her for breaches of contract relating to alleged lateness on the set due to making up at home and similar matters, none of which was ultimately supported by the evidence.

The company (which had already been negotiating with Winger before Welch was discharged) replaced Welch with Winger (who received \$150,000, the re-shooting of earlier scenes costing some \$200,000). Begelman was quoted as saying “We had a general feeling she had not lived up to her contract. . . . We had no alternative. It is up to the executives to tell the people in this business we will not stand for that. The director gave her appropriate directions and she failed to obey.” The film opened to poor reviews and did little business.

A jury awarded Welch compensatory damages of \$1,000,000 for lost income, and \$750,000 for loss of reputation on Welch’s claim of bad faith breach of contract, as well as \$300,000 against MGM for slander, and punitive damages of \$3,750,000 against MGM and \$500,000 against the individual producer for conspiracy to induce breach of contract, and \$3,750,000 against MGM for breach of the implied covenant of good faith and fair dealing.

Unfortunately for Welch, however, subsequent to the intermediate appellate decision in her case the California Supreme Court decided, in *Newman v. Emerson Radio Corp.*, 48 Cal.3d 973, 772 P.2d 1059 (1989) that the decision in *Foley v. Interactive Data Corp.*, 47 Cal.3d 654, 765 P.2d 373 (1988), which limited tort damages for bad faith discharge to cases based upon claims of violation of fundamental public policy and held that tort damages could not be recovered for breach of the implied covenant of good faith and fair dealing in employment contracts, applied retroactively. The Supreme Court therefore instructed the Court of Appeal to vacate its opinion and reconsider the matter in light of the *Newman* decision. See *Welch v. MGM*, 264 Cal.Rptr. 353, 782 P.2d 594 (1989).

When one considers the expenditures which must have been involved in trying and appealing the case, and the damages awarded on the remaining counts, it might well have been preferable for MGM to have relied on the pay or play clause in the first instance.

5. Contract disputes which would normally give rise to contractual damages only can sometimes evolve into situations in which punitive damages are available. While film agreements almost never extend beyond a single project, the pattern in television is quite the opposite: Most talent agreements contemplate a relationship that may last several years. Quite often, actors are more or less unknown when they are engaged to perform in a series. Weekly fees will be prescribed at the outset, as will restrictions on outside activities. All at once, an actor or actress may find himself or herself a major national celebrity, and fees which once seemed astronomical may now appear minor league; similarly, restrictions on outside activities which once seemed almost academic may now prohibit the performer from taking up lucrative and/or career-enhancing projects.

Then, too, people change: They and their interests can undergo considerable transformation over time. The grueling weekly grind of series television may result in boredom, personal friction between members of the cast and/or the production staff, and other distractions. Additionally, producers may feel the need to revisit old arrangements as the fortunes of a series wax and wane.

The cases of Valerie Harper and William Smithers illustrate the sorts of problems that

occur in the area of talent agreements. The *Harper* case is discussed in detail in two articles in 12 *Los Angeles Lawyer* (April 1989): “Valerie Harper v. Lorimar: Entertainment Industry Customs on Trial,” by Barry Langberg (the attorney who successfully represented Ms. Harper) (at p. 19) and “Valerie’s Version: Vindicated, Not Vengeful,” by Robert M. Snider (at p. 20).

Harper commenced her work in the sitcom “Valerie” under a short-form agreement (customarily known as a “deal memo”) that called for the eventual preparation of a more formal agreement containing “customary provisions” to be negotiated in good faith. Apparently, according to testimony summarized in the Langberg article, the production company never really expected to prepare a long-form agreement, a fairly common practice in the entertainment industry. (Indeed, an old industry joke used to be that you would know your series was being cancelled when you received the first draft of your long-form agreement.)

Apparently, Harper developed an idea for a sitcom, in which she would star, which received some favorable response at NBC and which was ultimately developed by Lorimar into the “Valerie” series. Because of her involvement with the creative genesis of the project, Harper was to have some measure of creative input and not merely perform as an actress, although this was not mentioned in the deal memo, which Langberg describes (at p. 20) as “standard” and which provided for a profit participation.

Over a two-year period, during which the series’ ratings gradually improved, relations between Harper and Lorimar deteriorated, according to Langberg, “when the executive producers increasingly excluded Harper from the creative process.” After the second season, there were negotiations concerning creative as well as monetary issues, and demand was made for the formal agreement called for by the deal memo. No formal agreement was forthcoming. Claiming that Lorimar was in breach, Harper failed to appear for the commencement of shooting for the third season, following which Lorimar brought suit seeking injunctive relief. After one episode had been filmed without her, Harper returned to work on the basis of a letter from Lorimar confirming settlement terms.

The parties’ testimony differed on what occurred next. Harper claimed that she was again excluded from the creative process, while Lorimar contended that she interfered with production and was a disruptive influence. According to Langberg (at p. 21), post-trial juror interviews indicated that the jurors found that Harper was acting in good faith in an attempt to assist in achieving quality results. In any case, Harper’s performance in the second episode turned out to be her last.

Lorimar amended its breach of contract action to drop its request for injunctive relief, while Harper cross-complained for breach of contract, breach of the implied covenant of good faith and fair dealing, and certain other counts. After a jury trial, Harper and her husband, Tony Caciotti, were awarded \$1.85 million in damages and a one-eighth share of (according to Snider, at p. 20) 1987 and 1988 profits of \$10 to \$15 million.

The case, *Lorimar Productions, Inc. v. A.V. Productions, Inc.*, L.A. Sup. Ct. Case No. WEC 115546, illustrates, according to Langberg (at p. 22) “the typical conflict between the apparently customary procedures in the entertainment industry on the one hand and the formalities of the law on the other hand.” Langberg observes that legal rules “often conflict with the assumptions that one or both of the parties have made during the course of their dealings” and that “failure to execute an agreement, or leaving terms to future negotiations, opens the door to results in the courtroom that are unpredictable” (*Id.*). He further warns against “nebulous and unspecific promises, both verbally in addition to the contract and in the contract itself,” such as “promises of ‘creative input’ or ‘good faith approvals’ not spelled out in specific detail” (*Id.*, p. 23).

The case of *Smithers v. Metro-Goldwyn-Mayer*, 139 Cal.App. 3d 643 (2d Dist. 1983) (an opinion subsequently decertified for publication), presented a different fact pattern. Smithers, a well-known character actor (he portrayed the warden of Devil’s Island in *Papillon*, for example), recovered a seven-figure judgment against MGM for tortious breach of con-

tract when he was discharged from the series “Executive Suite” after refusing to accept a reduction in his contractually prescribed credit.

As we have observed (in Sec. 2.5, above), credit is a matter of crucial importance to creative personnel. Initially, the casting director offered Smithers “most-favored-nations” treatment in the area of credits, meaning that no one would receive more favorable treatment. This was modified to permit the actors playing three specific roles to be billed above Smithers. This treatment was offered to Smithers to compensate for the fact that he was being offered compensation below his customary fee. This arrangement was embodied in a deal memo, pending the execution of a long-form agreement.

When Smithers saw the finished pilot, four actors—rather than three—were billed above his name. Ultimately, 10 or 11 actors’ names appeared above Smithers’. Smithers complained about the billing. When he and his agency reviewed the draft long-form agreement, they discovered that the billing provisions did not conform to the deal memo: Any number of actors could be billed above Smithers.

Smithers was subsequently advised that his role was to be written out of the series. His agent was told that the most-favored-nations clause had been a mistake and that Smithers should waive it. When he refused, MGM’s president of television purportedly told Smithers’ agent that the president “would be hard pressed to use Mr. Smithers again . . . and that if he [the president] were to tell this to Bud Grant, who was then the head of CBS for programming . . . [that] Grant would go along as well with not using Mr. Smithers.” MGM then changed Mr. Smithers’ billing to the end of the show, separated, however, from the rest of the end-of-show credits.

The jury found that MGM’s president of television had, in effect, threatened to blacklist Smithers if he failed to acquiesce, which the court considered sufficient to constitute a tortious breach of the implied covenant of good faith and fair dealing. In addition, the court upheld a finding that Smithers had been injured by MGM’s fraud and deceit, in having relied on the promise of billing when he entered into the agreement, a promise which MGM evidently had no intention of honoring when the promise was made.

Whether or not future complainants will be able to recover in the same manner as Smithers is open to some question, in light of the decertification of the opinion as well as the later decision in the *Welch* case.

6.5 CONTRACTS OF ADHESION/UNCONSCIONABILITY: THE BUCHWALD CASE AND AFTER

Starting more than forty years ago, after the post-World War II collapse of the film studios’ “star system,” the studios adopted the practice of engaging top talent on a project-by-project basis. To avoid heavy front-end costs, the studios increasingly made deals under which major talents were to participate in net profits. The motion picture studios’ net profits formulas went largely unchallenged. Although litigation between actors, directors, writers, and producers, on the one hand, and studios, on the other, has been frequent over the years (see, for example, P. N. Lazarus III, “Ensuring a Fair Cut of a Film’s Profits,” 5 *Entertainment Law & Finance* (November 1989), there was no serious challenge to the net profits formulas until *Buchwald v. Paramount Pictures*.

The case had two aspects; first, the finding that the Eddie Murphy starring vehicle, *Coming to America*, was based upon Buchwald’s story, “King for a Day.” The second aspect of the case concerned the manner in which net profits were to be calculated. In the end, Judge Schneider’s decision was somewhat Solomonic: Although he invalidated a number of provisions of the studio’s standard agreement, he refused to rewrite the parties’ agreement and eventually awarded the plaintiffs only an aggregate of \$900,000, far less than the millions the plaintiffs

had sought. Both sides appealed, but according to *The Hollywood Reporter*, the case has been settled (*The Hollywood Reporter*, September 13, 1995, p. 4), but it seems fair to assume that “net profits” litigation will continue. Judge Schneider definitely captured the attention of the entire industry. On the other hand, a subsequent case, *Batfilm Productions v. Warner Bros. Inc.*, has reached a contrary result. While these cases are not precedential, they are very well known in the entertainment industries, and raise issues similar to those raised in the U.K. “restraint of trade” cases discussed in Sec. 6.6, which follows.

**Art Buchwald v. Paramount Pictures Corp., 17 Med. L. Rept. 1257
(Cal.Sup.Ct. L.A. County) Dec. 21, 1990**

SCHNEIDER, J.

I. Preliminary Statement

In the first phase of this case, this court ruled that Paramount’s film *Coming to America* was “based upon” the screen treatment written by plaintiff Art Buchwald. In the second phase of the case the court has been presented with numerous issues, including whether: (i) The contract between plaintiff Bernheim (a producer) and Paramount is a contract of adhesion; (ii) the contract, or any provision thereof, is unconscionable; (iii) the relationship between Bernheim and Paramount was that of co-venturers; (iv) Paramount owed a fiduciary duty to Bernheim, and (v) conduct on the part of Paramount breached the implied covenant of good faith and fair dealing. The court has also been presented with the task of interpreting other contract provisions, including the so-called “consultation” clause; the “turnaround” provision; and paragraph D.2.b. of the Bernheim Deal Memo.

II. The Contract

In order to understand the issues presented to the court in this phase of the proceeding, it is important to identify the components of the contract that present those issues. These components are:

1. The February 24, 1983, Deal Memo (consisting of six pages) entered into between Alma Productions, Inc. (Alain Bernheim’s loan-out company) and Paramount;
2. The so-called “turnaround” agreement (consisting of three pages);
3. Additional Terms and Conditions (consisting of six pages); and
4. Paramount’s standard net profit participation agreement (consisting of 23 pages), with two attachments relating to royalties.

III. Discussion

A. Contract of Adhesion

A “contract of adhesion” “signifies a standardized contract, which, imposed and drafted by the party of superior bargaining strength, relegates to the subscribing party only the opportunity to adhere to the contract or reject it.” (Citation omitted.) *Graham v. Scissor-Tail, Inc.*, 28 Cal.3d 807, 817 (1981). As the Court in *Graham* stated:

Such contracts are, of course, a familiar part of the modern legal landscape, in which the classical model of “free” contracting by parties of equal or near-equal bargaining strength is often found to be unresponsive to the realities brought about by increasing concentrations of economic and other power. They are also an inevitable fact of life for all citizens—businessman and consumer alike. While not lacking in social advantages, they bear within them the clear danger of oppression and overreaching. It is in the context of this tension—between social advantage in the light of modern conditions on the one hand, and the danger of oppression on the other—that courts and legislatures have sometimes acted to prevent perceived abuses. (Id. at 817–818)

In the present case, the court finds that Bernheim’s compensation package, as set forth in the Deal Memo, was negotiated by Bernheim’s agent and Paramount’s representative, as were other provisions of the Deal Memo not relevant to this case. The court finds, however, that the “boilerplate” language of the Deal Memo was not negotiated.

The court further finds that the “turnaround” provision, the Additional Terms and Conditions, and the net profit participation agreement were not negotiated. With respect to the latter three parts of the Bernheim-Paramount contract, there is not the slightest doubt that they were presented to Bernheim on a “take it or leave it” basis. Indeed, the evidence reveals that Bernheim did not have the “clout” to make a better deal.

It is true Paramount has submitted evidence that it freely negotiates its net profit formula with the talent with which it deals. The court is not impressed with Paramount’s evidence. To the contrary, the court concludes plaintiffs have proved by a preponderance of the evidence that Paramount negotiates its net profit formula with only a relatively small number of persons who possess the necessary “clout,” and even these negotiations result in changes that are cosmetic, rather than substantive. Indeed, if, as Paramount contends, it freely negotiates with respect to its net profit formula, the court presumes it would have been inundated with examples of contracts where this was done. Succinctly stated, this has not occurred.

The evidence also discloses that the entire contract was drafted by Paramount and that the “turn-around” and net profit participation provisions were standard, form provisions. Indeed, there is evidence in the record that Paramount’s net profit formula is standard in the film industry. Further, there is evidence in the record to support the conclusion that essentially the same negotiations are conducted at all studios and that when one studio revises a provision of its net profit formula, that revision is adopted by the other studios.

The above factors lead to the inescapable conclusion that the Bernheim-Paramount contract is a contract of adhesion. The fact that a portion of the contract was negotiated, i.e., Bernheim’s compensation package in the Deal Memo, does not require a different conclusion. In *Graham*, *supra*, the Court held that the contract before it was a contract of adhesion, even though some of the terms were negotiated between the parties. (28 Cal.3d at 807)

B. Unconscionability

In *Graham*, *supra*, the Court stated:

To describe a contract as adhesive in character is not to indicate its legal effect. It is, rather, “the beginning and not the end of the analysis in so far as enforceability of its terms is concerned.” (Citation omitted.) Thus, a contract of adhesion is fully

enforceable according to its terms (citations omitted) unless certain other factors are present which, under established legal rules—legislative or judicial—operate to render it otherwise.

Generally speaking, there are two judicially imposed limitations on the enforcement of adhesion contracts or provisions thereof. The first is that such a contract or provision which does not fall within the reasonable expectations of the weaker or ‘adhering’ party will not be enforced against him. (Citation omitted.) The second—a principle of equity applicable to all contracts generally—is that a contract or provision, even if consistent with the reasonable expectation of the parties, will be denied enforcement if, considered in its context, it is unduly oppressive or “unconscionable.” (Citations omitted.) (28 Cal.3d 807 at 819–820)

1. *Unconscionability—Sword or Shield*

Before addressing the issue of whether the Bernheim-Paramount contract, or any provision thereof, is unconscionable, it is necessary to discuss several contentions advanced by Paramount. First, relying primarily on *Dean Witter Reynolds, Inc. v. Superior Court*, 211 Cal. App. 3d 758 (1989), Paramount argues that plaintiffs are impermissibly using the doctrine of unconscionability as a “sword.” Paramount claims that Civil Code section 1670.5, as interpreted by *Dean Witter*, permits the doctrine to be utilized only as a “shield,” i.e., by a defendant who has been sued. The Court does not agree. (Civil Code section 1670.5 provides in pertinent part as follows: “(a) If the Court as a matter of law finds the contract or any clause of the contract to have been unconscionable at the time it was made the Court may refuse to enforce the contract, or it may enforce the remainder of the contract without the unconscionable clause, or it may so limit the application of any unconscionable clause as to avoid any unconscionable result.”)

In *Dean Witter* the plaintiff brought a class action attacking certain fees charged by Dean Witter. Three of plaintiff’s causes of action were the subject of defendant’s petition for writ of mandate: The first cause of action for unfair competition; the third cause of action for unconscionability under Civil Code section 1670.5; and the fourth cause of action for unconscionability under the Consumer’s Legal Remedy Act (CLRA). *Id.* at 1631.

In *Dean Witter* the Court of Appeal held, inter alia, that no affirmative cause of action for unconscionability was created by Civil Code section 1670.5. In reaching this conclusion the court found that section 1670.5 merely codified the defense of unconscionability and did not support an affirmative use of action based on that doctrine.

In the present case, plaintiffs have not violated the holding in *Dean Witter* by bringing an affirmative cause of action based on the doctrine of unconscionability. Rather, plaintiffs have raised the doctrine of unconscionability in response to Paramount’s reliance on the contract between the parties as written. Several California appellate decisions support the use of the unconscionability doctrine in the manner in which plaintiffs seek to use that doctrine in this case.

In *Graham v. Scissor-Tail, Inc.*, *supra*, plaintiff sued for breach of contract, declaratory relief and rescission. Defendant attempted to invoke the arbitration provision contained in the contract. Plaintiff claimed, however, that this provision was unconscionable. The Court not only permitted the plaintiff to assert the unconscionability doctrine, but found the arbitration provision unconscionable and struck it.

In *A & M Produce Co. v. FMC Corporation*, 135 Cal. App. 3d 473 (1982) the buyer of a tomato processing machine sued the seller for breach of express war-

warranties, breach of implied warranty of fitness for a particular use and misrepresentation (although this last cause of action was dismissed by plaintiff at trial). The contract sued upon contained both a disclaimer of warranties and a limitation on the buyer's ability to recover consequential damages. Plaintiff attacked both of these provisions as unconscionable, after the defendant relied on the contract between the parties as written. Both the trial and appellate courts agreed and struck the unconscionable provisions.

In *Perdue v. Crocker National Bank*, 38 Cal.3d 913 (1985), plaintiff claimed that his bank's "non-sufficient funds" charges were unconscionably high. He alleged five causes of action: (i) declaratory relief (that the signature card was not a contract authorizing non-sufficient funds charges); (ii) declaratory relief (that the non-sufficient funds charges were unconscionable); (iii) damages for unjust enrichment; (iv) to enjoin unfair and deceptive practices; and (v) to recover the difference between the non-sufficient funds charges and the bank's actual expenses (incurred in processing an NSF check).

Although the trial court sustained the bank's demurrer to all causes of action, the Supreme Court reversed on the second and third causes of action and reversed with leave to amend on the first and fourth causes of action. By validating plaintiff's second and third causes of action, the Supreme Court effectively held that an affirmative cause of action for unconscionability exists if it is brought as an action for declaratory relief and that unconscionable fees may be recovered under the rubric of unjust enrichment.

A careful review of *Dean Witter, Graham, A & M* and *Perdue* reveals no inconsistency. To the contrary, the following conclusions can be gleaned from these cases:

1. A cause of action for damages based on the doctrine of unconscionability (in the absence of a CLRA-type statute) is impermissible. *Dean Witter Reynolds, supra*.
2. A plaintiff may commence an action, even one for damages, based on the implicit assumption that the unconscionable provision does not exist. *A & M Produce, supra*, (cause of action for breach of warranty); *Graham, supra*, (suing in civil court, rather than arbitrating); *Perdue, supra*, (suing for unjust enrichment).
3. In the kind of cases described in paragraph 2, when the defendant relies on the contract as written, e.g., *A & M Produce, supra*, (disclaimer of warranty); *Graham, supra*, (arbitration clause); *Perdue, supra*, (bank rules allowing non-sufficient fund fees) then plaintiff can counter with the claim the provisions are unconscionable. It also appears that a plaintiff may bring a cause of action for declaratory relief to have a contract provision declared unconscionable, without violating the principles enunciated in the cases referred to above (*Perdue, supra*).

To summarize, in the present case plaintiffs have not attempted to allege a cause of action based on the doctrine of unconscionability. To the contrary, plaintiffs have alleged three causes of action for breach of contract in which they seek damages. Paramount, by contrast, seeks to defend against plaintiffs' contract damage claims by invoking the provisions of the agreement between the parties as written. Plaintiffs, as is permitted by the cases referred to above, have countered by claiming certain contractual provisions are unconscionable. The Court finds that plaintiffs' use of the doctrine of unconscionability comports with the decisions in *Graham, supra*; *A & M Produce Co., supra*, and *Perdue, supra*.

2. Unconscionability—Surprise

Paramount also argues that the provision of the net profit formula cannot be found to be unconscionable because similar provisions have existed in the film industry for years and that all of the provisions were well known to Bernheim. In other words, Paramount argues the contract provisions, particularly the provisions of the net profit formula, cannot be unconscionable because Bernheim was in no way surprised by them.

It is no doubt true that the prevention of surprise is one of the two principal purposes of the doctrine of unconscionability. *A & M Produce Co.*, *supra*, at 484. “‘Surprise’ involves the extent to which the supposedly agreed-upon terms of the bargain are hidden in a prolix printed form drafted by the party seeking to enforce the disputed terms.” *A & M Produce Co.*, *supra*, at 486. It is equally true that, except perhaps for the amount of gross participation shares given to Murphy and Landis, Bernheim was not surprised by the provisions of the contract in question in this case, i.e., the contract provisions were not contrary to Bernheim’s reasonable expectations.

The absence of surprise, however, does not render the doctrine of unconscionability inapplicable. Indeed, in *Graham*, *supra*, the trial court specifically found that the Plaintiff was not surprised by the contract provision that was being attacked as unconscionable. (28 Cal. 3d at 821) Nevertheless, the trial court found the provision unconscionable, and the California Supreme Court affirmed.

3. Unconscionability—Oppression

The other principal target of the unconscionability doctrine is oppression. *A & M Produce Co.*, *supra*, at 484. “‘Oppression’ arises from an inequality of bargaining power which results in no real negotiation and ‘an absence of meaningful choice.’” *A & M Produce Co.*, *supra*, at 486. This has been referred to as the procedural aspect of unconscionability (*Id.*, at 486).

Unconscionability also has a substantive aspect. In *A & M Produce Co.*, *supra*, the Court stated:

Commercial practicalities dictate that unbargained-for terms only be denied enforcement where they are also substantively unreasonable. (Citations omitted.) No precise definition of substantive unconscionability can be proffered. Cases have talked in terms of “overly harsh” or “one-sided” results. (Citations omitted.) One commentator has pointed out, however, that “. . . unconscionability turns not only on a ‘one-sided’ result, but also on an absence of ‘justification’ for it” (citation omitted), which is only to say substantive unconscionability must be evaluated as of the time the contract was made. (Citation omitted.) The most detailed and specific commentaries observed that a contract is largely an allocation of risks between the parties, and therefore that a contractual term is substantively suspect if it reallocates the risks of the bargain in an objectively unreasonable or unexpected manner. (Citations omitted.) But not all unreasonable risk allocations are unconscionable; rather, enforceability of the clause is tied to the procedural aspects of unconscionability (citation omitted) such that the greater the unfair surprise or inequality of bargaining power, the less unreasonable the risk allocation which will be tolerated. (Citation omitted.) (*Id.* at 487)

4. Unconscionability—All or Any Provision of the Contract

There is no question that the law relating to the doctrine of unconscionability permits a court to strike down an entire contract or any provision thereof. Indeed, Civil Code section 1670.5 . . . so provides. See also *Perdue*, *supra*, at 925–926.

Paramount, while apparently recognizing the above quoted law, argues that it would be impermissible to apply the unconscionability doctrine to this case. As the court understands it, Paramount's argument has two prongs. First, Paramount argues that a court may strike an unconscionable clause of a contract only where that clause is "divisible." (Memorandum of Points and Authorities of Defendant Paramount Pictures Corporation re Phase II hearing on Legal and Contract Interpretation Issues, filed July 24, 1990, at p. 15) (hereinafter referred to as "7/24/90 Memo.") Paramount contends that in the present case, plaintiffs are impermissibly attacking "financially interrelated provisions" and demanding "an individual defense of each" (Id). Second, relying on a number of so-called "price" cases, Paramount argues that "profitability is not relevant to unconscionability" (letter from Paramount's counsel dated October 10, 1990, attached to Notice of Filing Prior Correspondence to Court, filed November 9, 1990).

Addressing the last argument first, it is apparent that the events that occurred at the November 8, 1990, hearing in this case have rendered Paramount's second argument moot. A little discussion of the history of this case is required in order to validate this conclusion.

In many documents filed with the court prior to November 8, 1990, Paramount argued that its net profit formula was justified, and indeed required, in order to permit it to remain in business. For example, in the Response of Defendant Paramount Pictures Corporation to Plaintiffs' Preliminary Statement of Contentions, filed May 21, 1990 (hereinafter referred to as "5/21/90 Memo") Paramount argued:

In agreeing to underwrite what it could thus anticipate to be a \$66.5 million investment, Paramount alone bore the risk that the Picture (sic) would not be produced or, if produced, would not commercially succeed and that its investment would be lost. In contrast, Bernheim and Buchwald risked nothing. Not surprisingly, Paramount obtained from Buchwald and Bernheim, as it does in varying degrees of all net participants, the right to attain gross receipts in excess of its direct out-of-pocket costs before it began sharing those receipts with participants. This simply reflects an attempt by the studio to balance the enormous economic risks attendant to motion picture production by insuring that the studio will reap a fair portion of the rewards resulting from a commercial success. As a means for compensating for an allocation of risks in the motion picture industry that places all the uncertainties on the studio, Paramount's contracts with Bernheim and Buchwald are not unconscionable. . . . (at 12).

Similarly, in its 7/24/90 Memo Paramount stated:

"As forty years of studio-talent bargaining has established, a studio is entitled to a return commensurate with the risks of movie-making. Otherwise, it could not remain a viable business." (Citations omitted.) There is nothing unfair or unreasonable about how the "Net Profits" formula strikes this balance.

The level of return allowed to Paramount under its "Net Profits" formula is more than offset by the risks that the studio alone takes. As plaintiffs' experts readily conceded, "Net Profits" participants bear no risk; if a film flops, participants have no obligation to take up the shortfall and their upfront fee is guaranteed. (Citations omitted.)

In contrast, the studio's risks are enormous. When it signed the Buchwald and Bernheim contracts, Paramount assumed the risk that, despite substantial script development costs (nearly \$500,000), the picture might never be made and that,

even if made, the picture would not make money. Paramount spent \$40 million to produce *Coming to America* and committed another \$35 million to an advertising and a promotional campaign with no assurance that a single theater admission would be sold. (Citation omitted.)

The risk of failure in the motion picture business is ever-present, immense, and unmitigable. . . . (at 19–21)

The Court interpreted the above quoted statements of Paramount, and many others like them, to mean that Paramount was attempting to justify its net profit formula on the ground that this formula was necessary for Paramount's survival. Indeed, when Paramount's counsel stated, "[o]therwise it could not remain a viable business" (7/24/90 Memo at 19), the Court understood Paramount to mean what its counsel had stated.

It was because Paramount argued that its net profit definition was justified by the exigencies of the film industry that the court decided to appoint its own accounting expert, pursuant to Evidence Code section 730. Indeed, the November 8, 1990, hearing was scheduled for the specific purpose of defining the tasks to be performed by the court's expert. This would have included, of course, an examination of Paramount's books and records to determine the accuracy of Paramount's representation with respect to its profitability, the number of films that make and lose money, and whether it was necessary for successful films to subsidize unsuccessful films. Remarkably, it was at this same hearing that counsel for Paramount abandoned the argument that Paramount's net profit formula was required by the nature of the motion picture business.

Paramount's abandonment of its "justification" argument rendered inquiry into Paramount's profitability moot and the appointment of the court's expert unnecessary. This abandonment also renders inapplicable the so-called "price" cases relied upon by Paramount. These "price" cases were submitted to the Court, according to Paramount, to establish the point that "profitability is not relevant to unconscionability" (October 10, 1990, letter, *supra*, at p. 1). Since Paramount no longer seeks to defend its net profit formula on the ground it is justified by the nature of its business, it is clear Paramount's profitability is irrelevant to the determination of whether the contract involved in this case is unconscionable.

As indicated above, Paramount also argues that the court may not strike down all or any portion of the net profit definition because that definition is part of the entire compensation package between Paramount and Bernheim. Paramount further argues that it would not have paid Bernheim as much "up-front" money if it had known many of the components of the net profit formula would be invalidated, and that Bernheim will reap a windfall if the court finds unconscionable portions of the net profit formula.

Paramount's argument is based on the proposition that the dispute between the parties is one over price. The court is not convinced that this is the case. However, even if Paramount is correct, it is "clear that the price term, like any other term in a contract, may be unconscionable" (*Perdue, supra*, at 926). In fact, in *Perdue* the Court stated:

The courts look to the basis and justification for the price (citation omitted), including "the price actually being paid by . . . other similarly situated consumers in a similar transaction." (Citation omitted.) The cases, however, do not support defendant's contention that a price equal to the market price cannot be held uncon-

scionable. While it is unlikely that a court would find a price set by a freely competitive market to be unconscionable (citation omitted), the market price set by an oligopoly should not be immune from scrutiny. Thus courts consider not only the market price, but also the cost of the goods or services to the seller (citations omitted) the inconvenience imposed on the seller (citation omitted) and the true value of the product or service (citation omitted) (38 Cal.3d at 926–927).

In the present case, the court has already found the Bernheim-Paramount contract to be adhesive. Moreover, it is clear, as the court has already found, that contractual relations between certain talent and studios, at least talent such as Bernheim who lack the “clout” of major stars, do not take place in a freely competitive market. Rather, it is clear that if a talent such as Bernheim wishes to work in the film industry, he must do so on terms substantially dictated by the studio. This is particularly true with respect to the net profit formula contained in the contract involved in this case. As previously indicated, Paramount simply does not negotiate with respect to its net profit formula with talent such as Bernheim.

Additionally, Paramount’s argument that it would be unfair if the court found any part of the net profit formula unconscionable is based on the faulty premise that the only thing that mattered to Bernheim was the “up-front” money. While it is true Bernheim’s agent, Roger Davis, testified that “up-front” money was important to Bernheim, he also testified that the other important consideration was “to get the project developed into a form where it could be made the basis of a motion picture” (Davis depo at 54). Presumably, Bernheim wanted to make a picture so that he could profit from it. (See Davis depo at 33; see also Youngstein depo at 121–122.)

Moreover, Paramount’s argument that net profits represented a relatively insignificant part of Bernheim’s total compensation package flies in the face of other evidence in the record. For example, in his Supplemental Declaration, Carmen Desiderio, Paramount’s Vice-President of Contract Accounting, testified that Paramount had paid more than \$150 million in net profits over the past 15 years, using the net profit formula contained in Bernheim’s contract, or one similar to it. Additionally, Paramount itself admitted in its 7/24/90 Memo, at 25, that “‘Net Profits’ are a valuable form of contingent compensation, not the ‘cruel hoax’ that plaintiffs insinuate.” Indeed, Paramount’s “turnaround” provision provides for Paramount to receive net profits in the event Bernheim was successful in convincing another studio to make a film based on Buchwald’s treatment (Bernheim Deal Memo, at p. 2).

Further, the doctrine of unconscionability would be rendered nugatory if a contracting party could escape its application by negotiating some monetary provisions, while at the same time imposing unjustifiably onerous provisions with respect to other contract provisions. Yet, that is precisely what Paramount argues is permissible.

Paramount has referred the court to four cases which, it is contended, supports Paramount’s position that the court may not strike down certain provisions of its net profit formula while enforcing the remainder of the contract with Bernheim. Paramount’s argument is totally refuted by the provisions of Civil Code section 1670.5, which specifically permits the Court to “enforce the remainder of the contract without the unconscionable clause” or to “limit the application of any unconscionable clause as to avoid any unconscionable result.” Moreover, none of

the four cases relied upon supports Paramount's argument, and at least one refutes it. (These cases are *York v. Georgia-Pacific Corp.*, 58 F. Supp. 1265 [N.D. Miss. 1984]; *Sykes v. Perry*, 162 Kan. 365 [1947]; *IMO Development Corp. v. Dow Corning Corp.*, 135 Cal. App. 3d 451 [1982]; and *Chow v. Levi Strauss*, 49 Cal.App. 3d 315 [1975].)

In *York*, *Sykes*, and *Chow* the respective courts did not address the question of whether a provision of a contract may be struck as unconscionable, while the balance of the contract is enforced. Indeed, if either of the two out-of-state cases had answered that question in the negative, the result would have been contrary to the express provisions of Civil Code section 1670.5.

Furthermore, the other California case cited by Paramount, *IMO Development*, at least by implication refutes Paramount's argument. In *IMO Development*, the Court specifically held that a contract cannot be partially rescinded, i.e., a party cannot seek to rescind part of a contract and seek enforcement of the remainder. The Court in *IMO Development* never addressed the doctrine of unconscionability because it had never been pled. The language utilized by the Court strongly suggests, however, that if unconscionability had been pled, the result under that doctrine might well have been different than the decision reached on the issue of partial rescission. The Court in *IMO Development* stated:

What *IMO* does allege is that its consent was obtained by economic duress. Business or economic duress exists when threats to business or property interests by way of coercion and/or wrongful compulsion are present. (Citation omitted.) *That, however, is not tantamount to a showing of unconscionability. In other words, the presence of a supposed unconscionable contract provision, such as would admit to differential enforcement, does not logically provide for differential rescission.* (Emphasis in original.) (*Id.* at 460).

In sum, the court concludes that there is nothing about the contract involved in this case, or the circumstances surrounding its execution, which precludes the court from addressing the issue of whether certain component parts of the net profit definition are unconscionable. The next issue that must be addressed is the appropriate manner of applying the doctrine of unconscionability to the contract involved in this case.

5. Unconscionability—The Doctrine Applied

Plaintiffs have challenged as unconscionable a number of provisions of Paramount's net profit formula. The challenged provisions include: 15 percent overhead on Murphy and Landis [profit] participation; 15 percent overhead on Eddie Murphy Productions operational allowance; 10 percent advertising overhead; 15 percent overhead; interest on negative cost balance without credit for distribution fees; interest on overhead; interest on profit participation payments; the interest rate not being in proportion to actual cost of funds; exclusion of 80 percent of video cassette receipts from gross receipts [Typically, the studios distribute home videos through wholly-owned subsidiaries, and only 20 percent of wholesale receipts are included in the gross of the picture-Eds.]; distribution fee on video royalties; charging as distribution costs residuals on 20 percent video royalties; charges for services and facilities in excess of actual costs; no credit to production cost for reusable items retained or sold; charging taxes offset by income tax credit; charging interest in addition to distribution fees; 15 percent overhead in addition

to distribution fees; and 10 percent advertising overhead in addition to distribution fees.

Paramount has never argued that any of these provisions are individually fair and reasonable. Rather, as has been indicated, Paramount has argued that the Bernheim-Paramount contract must be considered as a whole, that that contract is fair and reasonable and, therefore, the court is not permitted to focus on individual provisions of the net profit formula to determine if such provisions are unconscionable. As discussed above, the court rejects the argument that it is impermissible for it to focus on individual provisions of the net profit formula.

Plaintiffs, by contrast, have presented evidence which they argue supports their position that each of the challenged provisions are unconscionable. The court is not persuaded that plaintiffs have sustained their burden of proof with respect to each challenged item. In fact, with respect to a number of challenged items it appears plaintiffs would like the court to make a finding of unconscionability based upon the mere description of the item and without supporting evidence. This the court is not prepared to do. However, with respect to a number of provisions plaintiffs have sustained their burden of proving such revisions are “overly harsh” and “one-sided.” *A & M Produce Co.*, *supra*, at 487. Indeed, in light of Paramount’s “all or nothing” approach to unconscionability, plaintiffs’ evidence stands unrefuted.

The court finds the following provisions of Paramount’s net profit formula unconscionable for the reasons indicated:

1. *Fifteen Percent Overhead on Eddie Murphy Productions Operational Allowance.* The court finds this provision unconscionable because an additional 15 percent charge is made for overhead “on top of” this item. In effect, this results in charging overhead on overhead. The court is able to perceive no justification for this obviously one-sided double charge and Paramount has offered none.

2. *Ten Percent Advertising Overhead Not in Proportion to Actual Costs.* This flat overhead charge [The studios typically add 10 percent to the actual costs for in-house advertising personnel and facilities-Eds.], which has no relation to actual costs, adds significantly to the amount that must be recouped by Paramount before the picture will realize net profits. Again, the court is able to discern no justification for this flat charge and Paramount has offered none.

3. *Fifteen Percent Overhead Not in Proportion to Actual Costs.* Paramount’s charge of a flat 15 percent for overhead [The studios typically add 15 percent to the “negative cost,” the actual costs of preproduction, principal photography, and post production-Eds.] yields huge profits, even though the overhead charges do not even remotely correspond to the actual costs incurred by Paramount. In this connection it should be observed that although Paramount originally contended that this charge was justified because “winners must pay for losers” (Sapsowitz Deposition at 65) this justification was abandoned by Paramount during the November 8, 1990 hearing held in this case.

4. *Charging Interest on Negative Cost Balance Without Credit for Distribution Fees.* Paramount accounts for income on a cash basis, while simultaneously accounting for cost on an accrual basis. This slows down the recoupment of negative costs and inflates the amount of interest charged. The court finds this practice to be “one sided” in the absence of a justification for the practice.

5. *Charging Interest on Overhead.* Paramount receives revenues in the form of distribution fees and overhead charges, neither of which are taken into account in determining whether costs have been recouped. This results in “interest” becoming

an additional source of unjustified profit. The court finds this practice to be “overly harsh” and “one sided,” and thus unconscionable.

6. *Charging Interest on Profit Participation Payments.* Paramount charges the payments made to gross participants to negative costs. In fact, these payments are not paid until the film has derived receipts. Accordingly, Paramount has not in any real sense advanced this money. Nevertheless, Paramount charges interest on gross participation shares. This is unconscionable.

7. *Charging an Interest Rate Not in Proportion to the Actual Cost of Funds.* Paramount charges an interest rate which can be as much as 20 to 30 percent (Zimbert Deposition at 172), even when no funds have been laid out by Paramount. This is a one-sided, and thus unconscionable, provision.

In sum, the court concludes that the foregoing provisions of Paramount’s net profit formula are unconscionable. The conclusion that these provisions are unconscionable is by no means the end of the analytic trail. While this conclusion does actuate the court’s powers under Civil Code section 1670.5, it remains to be decided how those powers should be invoked.

As noted in *A & M Produce Co., supra*, “unconscionability is a flexible doctrine designed to allow courts to directly consider numerous factors which may adulterate the contractual process” (135 Cal. App. 3d at 484). Similarly, in *Frostifresh Corporation v. Reynoso*, 274 N.Y.S. 2d 757, 759 (1966) the Court stated that paragraph 2–302 of the Uniform Commercial Code, upon which Civil Code section 1670.5 is based, gives “the courts power ‘to police explicitly against the contracts or clauses which they find to be unconscionable.’”

This court interprets the cases dealing with the doctrine of unconscionability as authorizing the court to use its powers under Civil Code section 1670.5 to produce an equitable result. Indeed, “equitable” would appear to be the antithesis of “unconscionable.” In *Graham v. Scissor-Tail, Inc., supra*, the court specifically recognized that the doctrine of unconscionability involves “a principle of equity applicable to all contracts generally— . . . that a contract or provision, even if consistent with the reasonable expectation of the parties, will be denied enforcement if, considered in its context, it is unduly oppressive or ‘unconscionable’” (28 Cal.3d at 820). See also *Slaughter v. Jefferson Federal Savings and Loan Association*, 361 F. Supp. 590, 602 (D.C.D.C. 1973) in which the court, after concluding the provisions of a contract were unconscionable, stated that in such circumstances “[t]he Court has broad discretion to fashion relief appropriate to the situation presented.”

Since it is the task of the court to achieve an equitable result, the question before the court is: What decision is necessary in order to produce such a result? Plaintiffs answer this question by arguing that Bernheim is entitled to receive the compensation provided for in paragraph D.2.b of the Bernheim Deal Memo, after all of the unconscionable provisions are stricken and after permitting Paramount to recoup its actual costs plus a reasonable rate of return on its investment. Counsel for Paramount, although specifically asked by the court during oral argument on December 6, 1990, stated he had no position with respect to this issue in light of his view that the court could not determine that individual provisions of the net profit formula were unconscionable.

After careful consideration, the court has concluded plaintiffs’ approach must be rejected because it does not produce an equitable result. There are a number of reasons for the court’s conclusion.

If the court were to strike all of the challenged provisions of the net profit formula that it has found to be unconscionable and permit Paramount only to recover its costs, plus a reasonable rate of return, the result would be an inequitable windfall to Bernheim. Stated another way, accepting plaintiffs' argument would result in Bernheim receiving a profit far beyond the contemplation of the parties at the time the contract was entered into and, apparently, far beyond the profit a producer with Bernheim's experience and track record would reasonably have been expected to earn.

The court believes it does not have sufficient facts to fix the amount that Paramount should be required to pay Bernheim in this case. The court intends, therefore, to defer to the third phase of this trial the amount of damages to which Bernheim is entitled and the manner in which such damages should be calculated. The court anticipates that expert testimony may be required. Further, the court desires to hear argument from counsel concerning these issues, particularly with respect to the factors that the court should consider in arriving at an equitable award. Although counsel for Paramount has heretofore declined to take a position with respect to these issues, the court assumes that, in light of the views expressed by the court herein, counsel will now proffer Paramount's position.

The court also desires to emphasize that its focus in the third phase will be on awarding damages to Bernheim which are fair and reasonable, but which will not result in Bernheim receiving a windfall, i.e., an award far beyond the reasonable expectations of the parties when the contract was executed.

The court also intends to defer ruling on the amount to which Buchwald is entitled until after the amount due Bernheim is fixed. The court observes, however, that under the contracts as written, Buchwald was to receive only a fraction of the net profits to which Bernheim would have been entitled (1½ percent for Buchwald; 17½ to 40 percent for Bernheim). The court will in all likelihood be influenced by this fact in setting the amount due Buchwald.

C. The Juxtaposition of Unconscionability and the Consultation Clause

Paragraph D.2.b of the Bernheim Deal Memo contains the so-called "consultation clause." That clause provides that Bernheim "will be consulted on gross and net-profit participations granted by PPC to third parties, but PPC's decision shall be final."

Bernheim contends that Paramount breached the consultation clause by not consulting with him. Paramount argues that the consultation clause is not significant since Paramount retained the right to make the final decision with respect to granting gross and net-profit participations. The court finds it unnecessary to resolve this dispute.

If Bernheim is correct, the result would be that he is entitled to receive 33.5 percent of the net profits on *Coming to America* under the net profit formula contained in the contract as written. This conclusion follows from Bernheim's position that, by reason of Paramount's breach of the "consultation" clause, he is entitled to the highest percentage of net profit permissible under paragraph D.2.b of the Deal Memo and Bernheim's concession that that highest percentage is 33.5 percent. If Paramount is correct, the result would be that [because of the shares of third parties] Bernheim is entitled to receive only 17½ percent of net profits (the floor established in Section D.2.b of the Bernheim Deal Memo) under the net profit formula contained in the contract as written.

In the preceding section of this Tentative Decision, however, the court has concluded that a number of provisions of the net profit formula as written are unconscionable. The court has also determined that it will follow a different path in arriving at equitable compensation for Bernheim and Buchwald in light of such unconscionability. Since, pursuant to the court's ruling, the net profit formula as written no longer exists, it makes no difference whether Bernheim or Paramount is correct with respect to the percentage of net profits to which Bernheim is entitled. This factor also makes Paramount's alleged breach of the consultation clause irrelevant.

D. The "Turnaround" Provision

As indicated above, one of the component parts of the contract between Paramount and Bernheim is the so-called "turnaround" provision. The purpose of the "turnaround" provision is to permit a producer to take his project to another studio if the first studio is no longer interested in pursuing it, while at the same time permitting the first studio to recoup its development costs if the project is undertaken by the second studio. Hahn Declaration, paragraph 19; Sattler Declaration, paragraph 53; Denman 6/28/90 Deposition at 55. Insofar as is pertinent to the present case, the "turnaround" agreement provides:

If, prior to the expiration of the turnaround period, the project is not placed elsewhere and/or if Lender has not complied with the conditions above, including, without limitation, complete reimbursement to Paramount, then at the end of the turnaround period, Lender's rights with respect to the project shall cease and Paramount's ownership thereof and all properties and rights encompassed therein shall be absolute.

The facts with respect to the application of the "turnaround" agreement to the present case are these: In March 1985 Paramount purported to give notice that it was abandoning the project that had been inspired by Buchwald's treatment. In May 1985 Paramount permitted its option with respect to the Buchwald material to expire. Paramount contends that since Bernheim failed to set up the project at another studio within the 12-month period ending in March 1986, the "turnaround" agreement extinguished any obligations Paramount had with respect to Bernheim.

It is true, as Paramount argues, that if the "turnaround" provision is considered in isolation, it would appear Bernheim's rights to compensation ended in March 1986. The vice of Paramount's argument is that the "turnaround" provision cannot be considered in isolation. Paragraph D.1 of the Bernheim Deal Memo provides, in pertinent part, that "[i]f the Picture is produced, Lender will furnish the services of Artist, who shall be employed by PPC to personally render all customary services as producer."

The Court has already concluded that the picture was made, i.e., that *Coming to America* was "based upon" Buchwald's treatment entitled "King for a Day." In light of this conclusion, it is clear Paramount was required to employ Bernheim as producer on *Coming to America* and that Paramount breached its contract with Bernheim by failing to do so. It would make no sense to conclude that Paramount breached the agreement by failing to employ Bernheim, while at the same time concluding Bernheim's right to compensation was terminated by application of the "turnaround" provision.

In reality, and the Court so finds, it was never contemplated that the “turn-around” provision would apply in a situation such as is presented by the facts of this case. Moreover, to the extent that there exists an ambiguity by reason of the existence of paragraph D.1 and the “turnaround” provision, it is clear that such ambiguity must be resolved against Paramount as drafter of the agreement. Civil Code section 1654; *Jacobs v. Freeman*, 104 Cal.App. 3d 177, 189 (1980).

Finally, the Court observes that one of the important purposes, perhaps the most important purpose of the “turnaround” provision, from Paramount’s perspective, was to permit it to recoup its costs in the event Bernheim placed the project at another studio. In the present case that purpose has been satisfied since it is too clear to doubt Paramount has recovered all of its costs on *Coming to America*.

E. The Co-Venturer and Fiduciary Duty Issues

Bernheim contends that he and Paramount were co-venturers and that Paramount owed a fiduciary duty to him. With one exception to be discussed below, the court is unable to agree with either of these contentions.

Whether or not the relationship between parties is that of co-venturer is essentially a question of fact. *Nelson v. Abraham* 29 Cal.2d 745, 750 (1947) Few, if any, of the features that usually characterize a joint venture are present in this case. Bernheim did not have a right at all times to inspect and copy the purported venture’s books and records (*Milton Kauffman v. Superior Court*, 94 Cal. App. 2d 8, 17 (1949)) and Paramount had pervasive control over the purported venture. Moreover, while there was an agreement between Bernheim and Paramount with respect to the sharing of profits (but not losses) (see *Howard v. Societa Di Unione, etc.* 62 Cal.App. 2d 842, 848 (1944)), Paramount retained the virtually unlimited power to determine whether Bernheim ever received any profit. The factors present in this case do not point to the existence of a joint venture between Bernheim and Paramount.

The Court is also unable to find the existence of a fiduciary relationship between Paramount and Bernheim, except with respect to Paramount’s duty to render an accounting. *Waverly Productions v. RKO General, Inc.*, 217 Cal. App. 2d 721 (1963). In fact, the court disposed of Bernheim’s fiduciary duty claim in the Statement of Decision that was issued in the first phase of this case. In its Statement of Decision the court stated:

In addition to their contract claims, plaintiffs have advanced several tort theories of recovery, namely, bad faith denial of existence of contracts, bad faith denial of liability on their contracts, tortious breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, fraudulent concealment by a fiduciary and constructive trust. The obvious reason plaintiffs have asserted tort causes of action is to recover punitive damages since, absence such damages, the court is able to discern no difference between any tort damages plaintiffs might recover and their contract damages.

The court has concluded, as indicated, that *Coming to America* was based upon Buchwald’s treatment. The court is unable to find, however, any tortious conduct on the part of Paramount or any of its representatives. In order to award punitive damages to plaintiffs, the court would be required to find by clear and convincing evidence that defendant was guilty of fraud, oppression or malice, as those terms are defined in Civil Code section 3294. While the court rejects Paramount’s contention that *Coming to America* is not “based upon” “King for a Day,” the court is

unable to conclude that Paramount's conduct was in bad faith, let alone fraudulent, oppressive or malicious. Accordingly, while plaintiffs are entitled to recover on their breach of contract claims, the court finds the defendant is entitled to judgment on plaintiffs' tort claims (Statement of Decision [First Phase] at 33–34).

In light of the court's finding that Paramount's conduct was not tortious, the issue of whether a fiduciary duty existed between Bernheim and Paramount and, if so, whether Paramount breached that duty has been rendered moot. As indicated, however, the court does find that a fiduciary duty exists with respect to Paramount's duty to render an accounting. *Waverly Productions v. RKO General, Inc.*, *supra*.

F. The Covenant of Good Faith and Fair Dealing

Plaintiffs argue that Paramount breached the implied covenant of good faith and fair dealing by improperly or excessively charging a number of different items as costs on *Coming to America*. Paramount has countered by arguing that plaintiffs will be given the opportunity to challenge these costs in the third (damage) phase of this trial.

In a preceding section of this Tentative Decision, the court has ruled that a number of provisions of Paramount's net profit formula are unconscionable. The court also indicated that it intends to fashion relief that will produce an equitable result in this case. In light of the court's ruling, it appears to the court that application of the doctrine of unconscionability will produce damages at least equal to damages that could be awarded for a breach of the covenant. The court finds it unnecessary, therefore, to determine whether a breach of covenant has in fact occurred.

If a statement of decision is requested with respect to this phase of the trial, it shall be prepared by counsel for plaintiffs. This Tentative Decision shall be the statement of decision unless within ten days either party specifies controverted issues or makes proposals not covered in the Tentative Decision (Rule 232. Cal. Rules of Court).

NOTES

1. In the third phase of the case Judge Schneider awarded Buchwald and Bernheim a total of \$900,000 in damages. Pierce O'Donnell, the attorney for the plaintiffs in *Buchwald* [and the author, with Dennis McDougal, of a book about the case, *Fatal Subtraction: How Hollywood Really Does Business* (New York: Doubleday Dell, 1992)], brought a second action, this time on behalf of a number of individuals and corporations who had been involved with the *Batman* project. Like *Coming to America*, the first *Batman* generated revenues in the hundreds of millions of dollars, but apparently no net profits. Like the preceding case, the following decision has not been officially reported.

2. The court's analysis echoes the reasoning behind the U.K. cases that follow in sec. 6.6. However, unlike the situation in the U.K. cases, the plaintiffs in *Buchwald* sought to establish the validity of this contract instead of ending its application.

Batfilm Productions, Inc. v. Warner Bros. Inc., Nos. BC 051653 and BC 051654 (Cal. Super. Ct., L.A. County, March 14, 1994)

DAVID P. YAFFE, JUDGE

[In 1979, plaintiffs Melniker and Uslan obtained an option on the motion picture rights to the *Batman* comic book characters and made a deal with Warner Bros.]

predecessors in interest under which they were entitled to receive various forms of fixed and contingent compensation if a film were produced.] . . . In 1988, Mr. Melniker and Mr. Uslan signed a written amendment to the [original agreement](the “Warner Agreement”). Under the Warner Agreement, Mr. Melniker and Mr. Uslan were entitled to receive \$300,000 in fixed compensation for *Batman*, plus a \$100,000 “deferment” once the film generated a certain level of receipts, plus 13% of the so-called “Net Profits,” as defined in an attachment to the Warner Agreement.

Warner Bros. has paid Messrs. Melniker and Uslan the \$300,000 fixed fee and \$100,000 deferment. Warner Bros. has also paid Melniker and Uslan an additional \$700,000 in fixed fees on two additional motion pictures (*Batman Returns* and *Batman: Mask of the Phantasm*). Warner Bros. will have similar financial obligations to plaintiffs on each additional Batman motion picture. Although *Batman* has generated more revenue than any other Warner Bros. film, it has not generated any “Net Profits” under plaintiffs’ contract. Melniker and Uslan filed suit in 1992 claiming, inter alia, that they were denied their fair “Net Profits” compensation. . . .

. . . In reviewing the evidence, the Court believed that Mr. Melniker and Mr. Uslan had offered evidence to prove that the Warner Agreement was a contract of adhesion that should be strictly interpreted against Warner Bros. and should not be interpreted in a way that would be contrary to the plaintiffs’ reasonable expectations.

But a contract of adhesion is a contract, and a contract of adhesion is not the same as an unconscionable contract, which is no contract at all. “Unconscionability” requires a far different level of proof. The plaintiffs did not prove that they are to be relieved of their contract with Warner Bros. on the ground of unconscionability.

Mr. Melniker negotiated the Warner Agreement on his and Mr. Uslan’s behalf. No one is less likely to have been coerced against his will into signing a contract like the Warner Agreement than Mr. Melniker. This former general counsel and senior executive of a major motion picture studio (Metro-Goldwyn-Mayer) knew all the tricks of the trade; he knew inside and out how these contracts work, what they mean, and how they are negotiated.

Even with Mr. Melniker’s knowledge and experience, plaintiffs complain that Warner Bros. knew when the parties signed the agreement in 1988 that *Batman* would not generate “Net Profits.”

At the core of plaintiffs’ case is their argument that the contract was not fair to them because Warner Bros. and others earned millions of dollars on *Batman* and plaintiffs did not. The answer to that argument is that ever since the King’s Bench decided *Slade’s Case* in 1602, right down to today, courts do not refuse to enforce contracts or remake contracts for the parties because the court or the jury thinks that the contract is not fair.

That principle is not some medieval anachronism. This society, this country, this culture operates on the basis of billions of bargains struck willingly every day by people all across the country in all walks of life. And if any one of these people could have their bargain reexamined after the fact on the ground that it was not fair . . . we would have a far different type of society than we have now; we would have one that none of the parties to this case would like very much.

When one talks about a motion picture and the claims of this type that are made, they all have one thing in common: the plaintiff comes in and says, “With-

out me, they would have had nothing, and look how they treated me.” But the process of making a motion picture [involves many parties]. It would not be good for the motion picture business or for the parties to this case if any one of those people on any motion picture could come back and ask a court to remake a bargain that he made on the ground that he now asserts, after the fact, and in light of the success of the picture, that he was not fairly treated in comparison with others.

Whether or not a contract is fair is not the issue. A contract is not unconscionable simply because it is not fair. Plaintiffs claim that the Warner Agreement is unconscionable within the meaning of Civil Code section 1670.5. To be unconscionable, a contract must “shock the conscience” or, as plaintiffs alleged . . . it must be “harsh, oppressive, and unduly one-sided.”

After considering all the evidence, the Court finds that the plaintiffs have failed to prove that the Warner Agreement, taken as a whole, is unconscionable.

That, however, is not the end of the inquiry that the Court must make. Under Civil Code section 1670.5, if the evidence shows that any part of a contract is unconscionable, the Court may refuse to enforce that part of the contract.

During the trial, plaintiffs claimed that eight elements of the Warner Agreement’s “Net Profits” definition were unconscionable: (1) the 10% advertising overhead charge; (2) Warner Bros.’ retention of any economic value of United States tax credits created by the payment of taxes in the foreign territories where *Batman* was distributed; (3) application of the 15% production overhead charge on participation payments to third parties; (4) application of the 15% production overhead charge on the \$100,000 deferment; (5) all of the interest charges; (6) the costs charged by Pinewood Studios in England for holding sets and stages after completion of photography; (7) application of the 15% overhead charge to the costs incurred at the Pinewood Studio lot; and (8) the inclusion in “gross receipts” of only 20% of the revenue from videocassettes, less a distribution fee. . . .

In considering Warner Bros.’ motion for judgment under Code of Civil Procedure sec. 631.8, the Court had little difficulty in rejecting seven of plaintiffs’ claims.

As to all of the items relating to overhead charges (Items One, Three, Four and Seven), the Court granted Warner Bros.’ motion for judgment because the plaintiffs failed to prove that historically Warner Bros.’ indirect general administrative expenses for motion picture production and advertising—“overhead”—do not equal or exceed the amount charged under the “Net Profits” definition, namely, 15 percent of production costs and 10 percent of advertising expenditures. As a matter of fact, plaintiffs conceded that they could not show that the overhead charges under the “Net Profits” definition exceeded Warner Bros.’ actual overhead costs, taken as a whole.

Plaintiffs argued that charging overhead on certain production costs, advertising expenses, gross participations, deferred payments, and payments paid for foreign studios, was unconscionable because the administrative cost of providing those goods or services was less than the contractual 10 or 15 percent overhead surcharge. Plaintiffs did not prove that allegation. And, more important, the test is not whether Warner Bros.’ overhead charges on a particular direct cost item exceeded the “actual” administrative or other indirect expenses associated with providing that one item or service to the production or advertising of a movie. As the accounting experts for both sides testified, overhead cannot be assessed

with such precision. Under the circumstances, the test must be whether the production and advertising overheads charged by using the percentage allocations are, in total, unconscionably higher than Warner Bros.' actual production and advertising overhead costs on a motion picture. Plaintiffs offered no evidence to support such a finding.

Plaintiffs also failed to show that the advertising costs, gross participations, deferred payments, and payments paid to foreign studios were not historically included in the pool of costs that were compared to Warner Bros.' general and administrative expenses to estimate its rate of overhead. In sum, plaintiffs simply failed to prove that any of the overhead charges are unconscionable.

The Court also granted Warner Bros. motion for judgment as to Item Two, the foreign tax credit. According to plaintiffs, when a motion picture is distributed overseas, many countries impose a tax on the receipts generated. That tax payment gives rise to a credit that can be used under certain circumstances to offset United States income tax obligations. Plaintiffs claimed that, in calculating their "Net Profits," it is unconscionable for Warner Bros. to deduct foreign taxes as a distribution expense without adding something for the value of the foreign tax credits. The plaintiffs failed to prove, however, that Warner Bros. received any foreign tax credits on *Batman*, or the amounts thereof, or that Warner Bros. received any actual financial benefit from those tax credits when calculating and paying its United States tax obligations. Even if such a credit had been received, the plaintiffs failed to prove that they ever asked Warner Bros. to agree that, in computing "Net Profits," Warner Bros. would augment the gross receipts of the picture by the amount of the tax credits. No such provision is contained in plaintiffs' contract and there was no evidence that they ever expected such treatment of the tax credits.

The Court also granted the motion for judgment as to Item Six, the Pinewood Studios sound stage holdover costs, because there was no evidence that the holdover charge is not properly a cost of the first *Batman* movie.

The Court granted the motion for judgment as to Item Eight, videocassette distribution, on the ground that Mr. Melniker knew that a 20 percent royalty was standard in the industry. He never questioned it. He never asked that it be changed. The plaintiffs did not prove that the 20 percent royalty unconscionably exceeded the actual revenues, less expenses, from videocassette distribution. They also offered no evidence that a "distribution fee" on the distribution of videocassettes was unconscionable. Nor did they prove that they could have negotiated a better deal elsewhere at the time this deal was made, in which a higher percentage of video revenue, without deduction of a distribution fee, would be credited to the picture in calculating "Net Profits."

Item Five concerned the "interest" charge on production costs. Under Paragraph 2A of plaintiffs' contract, "Net Profits" become payable once the picture generates enough gross receipts to cover the specified distribution fees, distribution expenses, and production costs. Until then, under Paragraphs 2A and 9 of plaintiffs' "Net Profits" definition, the production costs bear an interest charge. Under the contract, Warner Bros. reduces the interest-bearing balance of production costs with only those gross receipts that remain after deducting the distribution fees and expenses. Plaintiffs claim that [it] is unconscionable for Warner Bros. to not credit the interest-bearing production cost balance with all the gross receipts of the picture. They also claim that because the distribution fee represents a source of "profit" for Warner Bros., this method of calculating interest is

unconscionable because it allows Warner Bros. to charge interest on the cost of production after the picture has generated revenues in excess of that amount.

Plaintiffs did present sufficient evidence to require Warner Bros. to defend its method of computing interest under the contract.

After listening to the evidence presented by Warner Bros. and the arguments of counsel, however, the Court finds that Warner Bros. met its burden of showing that the method of calculating interest provided in their contract is not unconscionable. Warner Bros. met its burden in a number of ways.

Warner Bros. showed that the interest provision in the Warner Agreement is really the same provision found in [the underlying agreement] that Warner Bros. did not have anything to do with. Plaintiffs were bound by that contract before they ever dealt with Warner Bros. They cannot complain that they were harmed by being required to abide by a similar provision with the same effect.

Warner Bros. also showed that plaintiffs would not have gotten any better deal on the calculation of interest if they had borrowed the production costs from a third party lender, had produced *Batman* themselves as independent producers, and had hired Warner Bros. (or presumably anybody else) just to distribute it for them. In that case, plaintiffs would not have been able to use all of the gross receipts generated by the film to repay their lender. Just as in their contract with Warner Bros., they would have been able to repay the production financier only with the gross receipts left over after the distributor retained enough to cover the distribution fee and expenses.

And, if there is a “profit” embedded within Warner Bros. distribution fee, plaintiffs did not prove the amount of it or that it prevented the picture from showing a net profit.

All of that evidence is sufficient to overcome the plaintiffs’ evidence as to the unconscionability of the method of calculating interest under their “Net Profits” contract.

Separately, plaintiffs argued that the language of their “Net Profits” contract did not permit Warner Bros. to continue charging interest once the gross receipts of the picture—prior to the deduction of distribution fees and expenses—exceed the total production costs. The duty of the Court is to find out what the parties meant by the language of their contract. If the contract is one of adhesion, the Court interprets it so that it does not defeat the reasonable expectations of the party who was forced to adhere to it. But the Court will not substitute its own interpretation of the contract if that is not what the evidence shows the parties intended.

The Court rejects plaintiffs’ argument because there was no evidence that plaintiffs ever interpreted the language of the interest provisions in the manner claimed at trial. Mr. Melniker was an old hand at motion picture agreements of this type and had negotiated other “Net Profits” contracts like this himself. He had experience with similar provisions yet he never mentioned the interest issue with anyone at Warner Bros. Plaintiffs offered no evidence that they expected Warner Bros. to compute interest in any other manner. They have thus failed to prove that the contract defeated their reasonable expectations. . . .

NOTE

For an analysis from the New York standpoint, see Paul Bennett Marrow, “Contractual Unconscionability: Identifying and Understanding Its Potential Elements,” *N.Y. State Bar J.* Feb. 2000, p. 18.

6.6 THE U.K. “RESTRAINT OF TRADE” CASES

The cases that follow are well known to American music and record lawyers. Although they are not binding on our courts, they have had an influence on the transactional side, beginning in the U.K. In response to the decision in the *Macaulay*, English publishers began to shorten the terms of their agreements, and to agree to return unpublished songs to writers after a short period (often a year or two). American lawyers soon picked up on this, and similar phenomena began to occur in U.S. deals.

6.6.1 The Earlier Cases

A. *Schroeder Music Publishing Co. v. Macaulay* (1974), 3 All ER 616 (HL)

[In 1966, Schroeder signed Macaulay (then a 21-year-old unknown) to an exclusive song-writer’s agreement essentially in Schroeder’s “standard form,” a form in large part typical of those then in use in the music publishing industry in England. Macaulay received a signing advance of 50 pounds, and was to receive a further advance of 50 pounds whenever a previous advance was recouped. If Macaulay had received an aggregate of 5,000 pounds by the end of the initial five-year period of the term, the term would automatically be extended for a second five-year year period. However, Schroeder had the right to terminate the term at any time upon one month’s notice.

While Macaulay engaged himself exclusively to Schroeder for the term, undertook to obey all lawful orders and directions from Schroeder, and agreed to use his best efforts to promote Schroeder’s interests, the only affirmative obligation undertaken by Schroeder (apart from the advances referred to above) was to pay royalties in the event any were earned. In addition, the agreement was freely assignable by Schroeder, but Macaulay was prohibited from assigning his rights under the agreement without Schroeder’s consent.

Although this fact does not appear in the House of Lords report, it is worth noting that the lower court opinions indicate that since this agreement did not require that royalty calculations be “at the source,” i.e., without reduction by reason of income shares deducted and retained by subpublishers before remitting foreign income to the original publisher, Schroeder entered into foreign subpublishing agreements with its own subsidiaries which, in turn, entered into sub-publishing agreements with other Schroeder subsidiaries. Each level of subsidiaries deducted its own fees before remitting royalties up the chain, so that Macaulay, who thought he would receive 50% of the income, actually received only a small fraction thereof.

In 1970, Macaulay brought suit seeking a declaration that the agreement was in restraint of trade, against public policy, and void.]

LORD REID

. . . It is not disputed that the validity of the agreement must be determined as at the date when it was signed and it is therefore unnecessary to deal with the reasons why the respondent now wishes to be freed from it. . . . I think that in a case like the present case two questions must be considered. Are the terms of

the agreement so restrictive that either they cannot be justified at all or that they must be justified by the party seeking to enforce the agreement? Then, if there is room for justification, has that party proved justification—normally by showing that the restrictions were no more than what was reasonably required to protect his legitimate interests. . . . [The agreement] must of course be read as a whole and we must consider the cumulative effect of the restrictions contained therein.

. . . Five thousand pounds in five years [The earnings level that had to be attained in order for Schroeder to exercise its five-year renewal option—Eds.] appears to represent a very modest success, and so if [Macaulay's] work became well known and popular he would be tied by the agreement for ten years. The duration of an agreement in restraint of trade is a factor of great importance in determining whether the restrictions in the agreement can be justified but there was no evidence as to why so long a period was necessary to protect [Schroeder's] interests.

. . . There may sometimes be room for an argument that although on a strict literal construction restrictions could be enforced oppressively, one is entitled to have regard to the fact that a large organization could not afford to act oppressively without damaging the goodwill of its business. But the power to assign leaves no room for that argument. We cannot assume that an assignee would always act reasonably.

The public interest requires in the interests both of the public and of the individual that everyone should be free so far as practicable to earn a livelihood and to give to the public the fruits of his particular abilities. The main question to be considered is whether and how far the operation of the terms of this agreement is likely to conflict with this objective. [Macaulay] is bound to assign to [Schroeder] during a long period the fruits of his musical talent. But what are the [Schroeders] required to do with those fruits? Under the contract nothing. If they do use the songs which [Macaulay] composes they must pay in terms of the contract. But they need not do so. . . . [T]hey may put them in a drawer and leave them there. No doubt the expectation was that if the songs were of value they would be published to the advantage of both parties. But if for any reason [Schroeder] chose not to publish them [Macaulay] would get no remuneration and he could not do anything. Inevitably [Macaulay] must take the risk of misjudgment of the merits of his work by the [Schroeders]. But that is not the only reason which might cause the [Schroeders] not to publish. There is no evidence about this so we must do the best we can with common knowledge. It does not seem fanciful and it was not argued that it is fanciful to suppose that purely commercial consideration might cause a publisher to refrain from publishing and promoting promising material. He might think it likely to be more profitable to promote work by other composers with whom he had agreements and unwise or too expensive to try to publish and popularize [Macaulay's] work in addition. And there is always the possibility that less legitimate reasons might influence a decision not to publish [Macaulay's] work.

It was argued that there must be read into this agreement an obligation on the publisher to act in good faith. I take that to mean that he would be in breach of contract if by reason of some oblique or malicious motive he refrained from publishing work which he would otherwise have published. I very much doubt this but even if it were so it would make little difference. Such a case would seldom occur and then would be difficult to prove.

I agree with the [Schroeders'] argument to this extent. I do not think that a

publisher could reasonably be expected to enter into any positive commitment to publish future work by an unknown composer. Possibly there might be some general undertaking to use his best endeavors to promote the composer's work. But that would probably have to be in such general terms as to be of little use to the composer.

But if no satisfactory positive undertaking by the publisher can be devised, it appears to me to be an unreasonable restraint to tie the composer for this period of years so that his work will be sterilized and he can earn nothing from his abilities as a composer if the publisher chooses not to publish. If there had been . . . any provision entitling the composer to terminate the agreement in such an event the case might have had a very different appearance. But as the agreement stands not only is the composer tied but he cannot recover the copyright of the work which the publisher refuses to publish.

It was strenuously argued that the agreement is in standard form, that it has stood the test of time, and that there is no indication that it ever causes injustice. [Lord Reid then discussed cases according great weight to commercial practices and accepted standard forms.]

But those passages refer to contracts "made freely by parties bargaining on equal terms" or "molded under the pressures of negotiation, competition and public opinion." I do not find from any evidence in this case, nor does it seem probable, that this form of contract made between a publisher and an unknown composer has been molded by any pressure of negotiation. Indeed, it appears that established composers who can bargain on equal terms can and do make their own contracts.

Any contract by which a person engages to give his exclusive services to another for a period necessarily involves extensive restriction during that period of the common law right to exercise any lawful activity he chooses in such manner as he thinks best. Normally the doctrine of restraint of trade has no application to such restrictions: they require no justification. But if contractual restrictions appear to be unnecessary or to be reasonably capable of enforcement in an oppressive manner, then they must be justified before they can be enforced.

. . . I need not consider whether in any circumstances it would be possible to justify such a one-sided agreement. It is sufficient to say that such evidence as there is falls far short of justification. It must therefore follow that the agreement so far as unperformed is unenforceable.

I would dismiss this appeal.

[Viscount Dilhorne, Lord Simon of Glaisdale, Lord Brandon and Lord Diplock concurred.]

NOTES

1. The next major decision in this area was *O'Sullivan v. Management Agency and Music, Ltd.*, [1984] 3 W.L.R. 448 (Court of Appeals [UK] August 10, 1984), in which a former unemployed postal worker, Raymond O'Sullivan, better known as "Gilbert O'Sullivan," writer/performer of such hits as "Alone Again, Naturally," "Claire," "Get Down," and others, recovered his songs and master recordings from companies controlled by his former manager, Gordon Mills, a Svengali-like manager/record producer who also created on-stage personae for, and managed and produced, the extremely successful Tom Jones and Engelbert Humperdinck. Mills signed O'Sullivan to agreements identical to those to which Jones and Humperdinck were signed. O'Sullivan was not told to seek legal advice; he was at Mills's office just long enough to sign the agreement. For a time,

O'Sullivan lived in a cottage on Mills' estate (and often babysat for Mills' daughter Claire). Mills' companies paid his living expenses and gave him an allowance of £10 per week. After selling 6.5 million records, O'Sullivan bought a house for £95,000, but had to borrow £60,000 of it. O'Sullivan and Mills gradually drifted apart, and O'Sullivan ultimately sought counsel who brought this action. The lower court held (citing the *Macaulay* case) that the agreements were in restraint of trade and therefore void and unenforceable, and that they had been obtained by undue influence. Although O'Sullivan testified that no actual pressure had been exerted on him to sign the agreements, undue influence was presumed because of the special, confidential fiduciary relationship between O'Sullivan and Mills. Mills and his co-defendants did not appeal from these findings, although they argued that only the unperformed portions of the agreements should be voidable. The trial judge was so outraged by Mills' conduct that he not only ordered Mills to return all of the compensation Mills had ever received under the agreements, but imposed compound interest as well. The court of appeal took a more lenient view. O'Sullivan conceded that although the agreements did not require any effort on defendants' part, "the defendants had in fact done such work gratuitously." O'Sullivan was willing to allow defendants credit for their "proper and reasonable expenses for the work done, including work done gratuitously," but no profit. The court, however, noted that Mills and O'Sullivan had achieved "phenomenal success," whereas, prior to his involvement with Mills, O'Sullivan had been totally unsuccessful. To allow O'Sullivan to retain 100% of the profits would give him an unwarranted windfall, and unduly penalize the defendants. The defendants were entitled to reasonable compensation, and only simple interest was to be awarded (except with respect to monies collected by Mills' foreign music publishing subsidiaries, which were essentially shell companies performing no real function; as to these, the court of appeals found a breach of fiduciary duty permitting an award of compound interest).

2. In *Zang Tumb Tumb Records Ltd., et al. v. Holly Johnson*, High Court of Justice, Chancery Division, 1987 Z. No. 4889, decided February 10, 1988, the lead singer of "Frankie Goes to Hollywood" (which was the first act signed to recording and music publishing contracts by a production company controlled by Trevor Horn, an established record producer) was able to free himself from his contract with Horn's company. When the contracts were signed—unlike the situation in the preceding cases—the group was represented by a manager and a solicitor. The chance to work with a producer of Horn's stature was a major inducement to the group to enter into the agreements. With Horn producing, FGTH achieved #6 and #1 singles, and then a successful double album. Although recording costs on the first album were "extremely high," and royalties therefore meager, up to this point, the group was very satisfied with the situation. However, prior to recording their second album, the group expressed concern over the issue of recording costs. Despite this concern, the group and ZTT never established an agreed budget for the second album, and the project ended up costing £750,000, nearly twice the recording costs of the first project (which, of course, was a double album) of which some £500,000 were due to the decreased involvement of Horn, who assumed the role of executive producer and turned the day-to-day production duties over to Lipson, who had been the engineer on the first album project, only to re-enter—and re-work—the project after a considerable amount of work had been done. After the second album, Johnson had a falling out with the other members of FGTH, and left the group. ZTT then attempted to invoke the "leaving member" clause in its recording agreement with the group in order to retain Johnson's services as a solo recording artist. However, the court found the recording and music publishing contracts in restraint of trade, due to a gross imbalance in bargaining power between FGTH and ZTT. All decisions as to the recording process (e.g., time and place of recording, selections to be recorded, choice of producer) were reserved to ZTT (although there was a contractual provision for consultation). The court, however, found that there was an implied duty on ZTT's part to keep costs within reasonable bounds. But beyond the issue of costs, ZTT was not required to record or release any recordings, and FGTH could not terminate the agreement if ZTT didn't do so. Moreover, since each option

period ran until the completion of a specified number of recordings, the term was potentially perpetual. “To my mind . . . the fact that under this agreement the group may be left unemployed by ZTT and unable to work for anybody else, taken by itself, is the really significant and important factor . . . I am satisfied that the restraints in this agreement are unreasonable and that . . . this was not a fair bargain. . . .” This was so even though the court did not believe that ZTT’s negotiator intended “to turn the screw on the group as hard as she could,” and even though she simply used a form secured from a third party. Moreover, under the “leaving member” clause, as Mr. Justice Whitford read it, Johnson would have to go back to the beginning, i.e., not simply record a number of albums equal to FGTH’s remaining recording commitment. Mr. Justice Whitford rejected ZTT’s request for a negative injunction; contrary to ZTT’s claim that Johnson was simply trying to get out of his contract so he could make a better deal elsewhere, the court rejected the notion “that it would be proper to make an order that would secure Mr. Johnson’s compliance with his obligations under the recording agreement not to perform for third parties.” The court found Johnson “eminently reasonable.”

3. In its affirming opinion, the court of appeals appeared to go further than the trial court, by declaring the agreements “void” (even though this point was not pleaded or argued on behalf of Johnson), relying heavily upon *Macaulay*.

4. Is a “void” agreement the same as an agreement which is “void *ab initio*?” If the latter, then the company never acquired the rights purportedly granted to it. This was apparently not the case in *Macaulay*, although reversion was ordered in *O’Sullivan*.

5. In light of the fact that no English court in recent years has upheld a personal services contract with a term of ten years or more, the length of term in many recording agreements (and other personal services agreements) is often limited in various ways. For example, option periods and/or the entire length of the term may be “capped,” to avoid the open-endedness criticized by Mr. Justice Whitford.

6. In addition, ZTT might have avoided criticism by undertaking an affirmative release obligation (perhaps with a clause permitting the group to terminate the remainder of the term and repurchase unreleased records in the event that ZTT refused to release a particular recording). Such clauses are encountered in many U.S. recording agreements.

7. Justice Whitford’s initial objection to the “leaving member” clause was the fact that it required the leaving member (in this case, Holly Johnson) to “go back to the beginning” with a recording agreement that started anew. However, the court of appeals in this case interpreted the clause differently, to the extent that Johnson would only be obligated to perform the then unfulfilled obligations under the group recording agreement (as opposed to starting at the beginning).

8. The court of appeal in the ZTT decision noted the “oppressiveness” of the recording agreement leaving-member clause in two respects. First, a leaving member forming a new group could do so only if the new members agreed to enter into the original recording agreement and, conversely, if the existing group found a replacement member, they were contractually obligated to require that new member to become party to the underlying recording agreement.

9. In dealing with a UK artist, consideration must be given to the advantages of not including a leaving-member clause in a recording agreement and simply signing each member to the agreement “jointly and severally.”

In the following case, the defendant is treated less harshly than in the preceding cases, in large measure because (a) Dick James voluntarily initiated contract re-negotiations, and (b) because James saw to it that Elton John had management. As we see, James’ efforts in this area were imperfect; nonetheless, they helped him to avoid a more drastic result.

**Elton Hercules John v. Richard Leon James, High Court of Justice,
Chancery Division, 1982 J. No. 15026, decided November 29, 1985**

[Dick James (who died shortly after this case was decided) had become Britain's most prominent music publisher by the mid-60s, in large measure by dint of having been the Beatles' first publisher. The James organization set up a number of foreign subsidiaries and entered into subpublishing agreements in other territories; gradually, unaffiliated foreign subpublishers were replaced with James affiliates (some of which were essentially "shell" corporations with no staff), and in some instances the agreements between the James UK company and its subsidiaries resulted in a lower percentage of income being remitted to London than had formerly been the case, while increasing the overall percentage of income to the James group. The James group also included a record production company, which initially licensed its product to third-party manufacturers, later substituting its own manufacturing/distribution entity.

Elton John and his lyricist, Bernie Taupin, signed songwriter agreements with Dick James Music (DJM) in 1967, and John signed management and recording agreements with James entities in 1968. All these agreements were on standard forms used by the James organization, and on the James organization's standard financial terms. In the case of the songwriter agreements, the writers' shares were to be calculated as a percentage of the receipts of DJM in the U.K., rather than on the basis of a calculation "at the source,"—that is, on the basis of monies collected in each country without reduction by reason of the share of monies collected by the local subpublisher. Neither John nor Taupin was represented by a solicitor or a manager, although their parents executed inducement letters because John and Taupin were minors. Dick James did not suggest to John and Taupin that they seek professional representation, nor did he explain the significance of the various contractual terms. For their part, John and Taupin did not ask questions—they were only too thrilled to be under contract to such a successful publisher.

John and Taupin received 50 Pound advances for signing their songwriter agreements, plus weekly advances of 10 or 15 Pounds each. The royalty split was essentially 50/50 (except for the publisher's share of public performance income, which was retained by DJM 100 percent).

The 1968 John-James recording agreement was likewise on a standard James form and provided very low rates of compensation to John.

From 1968 to 1970, John and Taupin achieved very little success, but, starting in 1970, John quickly became a superstar.

In 1969, Island Records had become interested in John and had suggested that he might have grounds for terminating the James agreement. John was un-receptive to the Island overtures, but he did tell James that he wanted to leave DJM. Later that year, the differences between John and DJM were resolved.

In 1970, the recording agreement was split into two agreements for tax reasons, one agreement covering the U.K. and the other covering the balance of the world.

During 1970, after John had had enormous success in the United States, James suggested a renegotiation of their agreements and recommended John (who already had a chartered accountant working for him) to a firm of solicitors. Initially, John's share of music publishing royalties was increased without a quid pro quo from John. Thereafter, the U.S. record licensing agreement between James and

MCA Records was renegotiated, and James in turn amended John's recording agreements to provide for an extension of the term and an increased share of record royalties for John.

During this period, DJM hired John Reid to perform its day-to-day personal management functions, with the understanding that at the expiration of John's management agreement with DJM, Reid would become John's manager. In late 1972, after the trial court decision in *Instone v. A. Schroeder Music Publishing Co. Ltd.*, Reid questioned the low level of John's music publishing royalties, and John's solicitors were of the opinion that while the publishing agreement was not objectionable per se, DJM should be required to justify its extremely large share of the proceeds. Reid complained to James, who denied the suggestion that DJM was taking an unfairly large share and invited an audit of DJM's books by John. After considering the solicitors' advice in light of his meeting with James, Reid recommended that John finish out the term of his publishing agreement (then due to expire in October 1973) rather than fight at that time.

Shortly thereafter, John and Reid were advised by John Eastman, a prominent New York entertainment lawyer, that it might well be possible to proceed against DJM under the agreements on the grounds that DJM had failed to account properly and that DJM's system of foreign sub-publishers had improperly reduced John's royalties. No action was taken at that time.

The publishing agreements expired in November 1973 and the recording agreements in February 1975. Audits of the DJM record and publishing companies were conducted on behalf of John in 1976, and John's representatives made DJM aware that they were considering the legal implications of the shares of royalties retained by the James foreign subpublishing subsidiaries. Discussions continued, and a further audit began in 1979. By 1980, John's managers and solicitors were considering a claim for recovery of John's copyrights. A barrister was consulted, but he advised against a suit to recover the copyrights, being of the opinion that the only remedy available to John was an action for damages for underpayment of royalties as the result of the excessive shares of publishing monies being retained by the DJM subsidiaries. Since John was fond of James and would only proceed if a massive underpayment were to be unearthed, a third audit was undertaken in 1981.

In 1982, John retained a new firm of solicitors, and suit was commenced in October of that year. John (and Taupin) sought to rescind the publishing and recording agreements for undue influence (and to recover the copyrights and master recordings), and to recover from DJM the difference between the royalties they had actually received and "the best possible royalty rates obtainable in the market," including amounts retained by DJM's foreign subpublishers, which would have been included in the calculation of the writers' shares had the publishing agreements been on an "at source" rather than a "receipts" basis (John and Taupin included, but later abandoned, claims that the agreements were in unreasonable restraint of trade; however, the decision is included here since the court's reasoning follows so closely that of the restraint of trade cases).]

MR. JUSTICE NICHOLLS

The plaintiffs put this claim in two ways. The first is that the excess retained was an unauthorized profit made by DJM in the course of a fiduciary relationship arising from the publishing agreements. Secondly, on the true construction of

the publishing agreements the excess is money due to the plaintiffs under those agreements or as damages for breach by DJM of an implied term not to establish or maintain arrangements outside the United Kingdom which unfairly, artificially or unjustifiably diminished [plaintiffs'] royalties. [A similar claim was made with respect to record royalties.] . . .

On a natural, fair reading of the documents one would have expected that the writers' entitlement to sums equal to one half of the royalties "received from persons authorized to publish the musical compositions in foreign territories" . . . carried with it the protection for the writers that, in fixing with the overseas "persons" the amount of the royalties to be remitted, DJM would be negotiating with another person an arm's length deal in which the interests of DJM and of the writers would not be in conflict. . . .

For my part I am in no doubt that under the publishing agreements DJM occupied a fiduciary position in respect of any exploitation which it carried out. In particular, in addition to being under a duty to exploit the assigned copyrights only in a way it honestly considered was for the joint benefit of the parties, DJM was under a duty not to make for itself any profit not brought into account in computing the writers' royalties. . . . [C]ommercially, the arrangement was in the nature of a joint venture, and the writers would need to place trust and confidence in the publisher over the manner in which it discharged its exploitation function. . . .

. . . [T]he evidence did establish that there are some advantages in having a subsidiary company even where it is only a "shell" administered by a local administrator. . . . [T]he subsidiaries were set up by DJM in the 1960s and later in the mid-1970s as the first steps towards an international network of local offices with local staff as in the [DJM company in] the United States of America. . . . [T]he subsidiary subpublishers appointed administrators to run their businesses on terms that gave the subsidiaries a profit additional to that of the parent. Apparently a 50% retention by the subsidiaries was normal in the industry. Whatever may be the rights or wrongs of this as far as other writers with their own contracts with DJM or other companies are concerned, the terms of which may be materially different, I am in no doubt that in this case DJM was in breach of its fiduciary duty to Mr. John [and] Mr. Taupin. . . .

[DJM claimed that John and Taupin were estopped to complain, and] pointed to the long history of the absence of any complaint regarding the sub-publishing arrangements despite the knowledge by the individual plaintiffs or their advisers of the nature and terms of the arrangement. . . . I am unable to accept this estoppel argument [because the "shell" arrangement was not disclosed until after the action commenced]. . . .

The defendants' next line of defence was limitation. They submitted that the plaintiffs' claim is essentially one of breach of contract in failing to pay sums to which the writers were entitled under the publishing agreements, and thus the ordinary six-year limitation period applies. . . . [P]laintiffs' claim that DJM should account for the unauthorized profit made by it in the course of a fiduciary relationship is not a claim to recover "trust property" within section 21(1)(b) [of the Limitations Act of 1980]. Royalties received by a publisher under an agreement such as the publishing agreements in this case are not impressed with a trust in favor of the writers (see *In re Grant Richards ex p. Warwick Deeping* 1907 2 KB. 33), and the amount of an unauthorised profit made by a fiduciary is recoverable by a plaintiff either as money had and received to his use or as an equitable debt

(*Reading v. The King* 1949 2 KB. 232, per Asquith LJ at 237): the relationship between the fiduciary and the plaintiff “is that of debtor and creditor; it is not that of trustee and cestui que trust” (per Lindley LJ. in *Lister & Co. v. Stubbs* 1890 45 Ch. 1 at 15).

[The Court rejected plaintiffs’ claim that the limitations period should be extended due to fraudulent concealment.] From the earliest days the defendants made no secret of the arrangements existing [with respect to the U.S.] . . . [A]t the material times 50 per cent was not the rate normally paid to independent sub-publishers after arm’s-length bargaining [and] was, and is now, excessive. . . . [I]n no case from 1964 to 1981 did DJM agree to terms with an independent sub-publisher whereby that independent sub-publisher retained more than 25 per cent in respect of original recordings. . . . [However,] there was not, in relation to the United States, anything of the nature of a “cover-up.” Those acting for the individual plaintiffs, both solicitors and accountants, and Mr. John’s manager, Mr. Reid, knew who was doing what in that territory and what was being charged. . . . I do not think that there has been conduct by the defendants such that it would be against conscience to avail themselves of the lapse of time or that there has been deliberate concealment of a fact relevant to the plaintiffs’ cause of action.

The position regarding the other sub-publishing subsidiaries is altogether different. . . . Unlike DJM USA, [the other subsidiaries] had no offices or local staff and their businesses were carried on by administrators, but they retained for themselves a percentage of the mechanical royalties substantially larger than the percentage paid to the administrators. . . . [T]hese matters were not disclosed when royalties were accounted for year after year, nor in March 1971 when Mr. James explained [to John’s solicitor] the built-in advantages which he said the writers enjoyed under DJM sub-publishing arrangements. . . . [I]t is straining credulity too far to regard the nondisclosure in these circumstances as inadvertence, due to oversight or office muddle. . . . [I]t was deliberate . . . unconscionable conduct . . . a deliberate concealment. . . .

I should add that this is not a case in which by the exercise of reasonable diligence the plaintiffs or their advisers could have discovered the concealment. . . . [T]he professional audits which did take place (and it has not been suggested that they were conducted inadequately) did not result in discovery of the administration agreements.

Accordingly, the limitations defence on sub-publishing succeeds in relation to DJM USA but fails regarding [the other DJM subsidiaries, as to which there should be] no allowance from the mechanical royalties received by those companies . . . beyond the sums paid to the [local] administrators. . . .

[As to TRC, DJM’s wholly-owned record production company], TRC was under fiduciary obligation to the artist in respect of any exploitation . . . of the master recordings similar to those I have already stated regarding any exploitation of the copyrights under the publishing agreements . . . [and] would be entitled to deduct its expenses or those of its subsidiary when accounting to the artist. . . .

However, subject to deduction of those expenses, TRC is *prima facie* accountable to the artist for the balance of the money obtained from the sale of the records as the profit arising from such sale. . . . [But TRC] formed and licensed a wholly-owned subsidiary, which entered into a pressing and distribution deal. The purpose of this type of arrangement was to ensure that the artist did not receive more than DJM conceived was his entitlement under the recording

agreement: a share of the royalties obtained from licensing the master recordings. The thinking behind this was that if Elton John, for example, was not entitled to a share of the profits made by Philips [the former distributor], why should he be entitled to a share of the profits made by TRC if TRC undertook the business activities formerly undertaken by Philips? . . .

To this day the royalty rate paid by DJM Records to TRC remains unchanged. This is so, even though the rates of commission payable to [the previous distributor] improved in DJM Records' favour as sales increased. . . . The fact that it was advantageous to Mr. John to have access to an in-house record manufacturer did not justify keeping the royalty rate paid by DJM Records below the market rate. . . . [T]here is no evidence that before October 1976 Mr. John or his accountancy legal or other advisers were adequately aware of the arrangements with DJM Records. . . . [H]ave the defendants deliberately concealed any fact relevant to the right of action now in point? In my view the answer . . . is yes . . . [and on this branch of the case] the defence of limitation fails. . . .

I return to the question of whether any additional allowance ought to be permitted to TRC. In my view it should. Mr. John has benefitted from the group's efforts over the records, and I do not think that it would be proper to exclude TRC from all reward from those efforts. The objective of the court is not the punishment of the defendants but the attainment of a result that in practice would be just as between the parties. I consider therefore that over and above expenses as already mentioned, TRC should have a reasonable allowance for the skill and labour of TRC and DJM Records in manufacturing, marketing, distributing and selling the records, that allowance to include a fair profit element. . . .

I turn to the plaintiffs' primary claim, to have the various recording and publishing agreements set aside on the basis that they were procured by undue influence. . . . [T]he substance of the two ingredients required before the Court will set aside a transaction are first, a relationship in which one person has a dominating influence over the other and, secondly, a manifestly disadvantageous transaction resulting from the exercise of that influence. . . . [Under the 1967 publishing agreements] the writers obtained precious little. They obtained a right to royalties. The defendants claimed that the writers also obtained the benefit of an implied obligation that DJM would use reasonable diligence to publish, promote and exploit the compositions accepted, but even if this was so such an obligation was necessarily so loose and imprecise that it would have afforded the writers little protection. . . .

It may be inherent in the nature of this type of publishing agreement that the publisher's strictly legal obligations will be very limited. What Mr. John and Mr. Taupin wanted was a foot in the door, the entree to the popular music publishing world, and in practice they obtained this by the 1967 publishing agreement. . . . The value of this to the two young would-be writers is not to be underestimated. They were fortunate to have found in Mr. James a leading music publisher who was willing to encourage and support them. But the agreement contained no provision for early termination or return of copyrights if, for example, successful publication was not achieved and the writers became aware of another publisher who had more confidence in their songs. Conversely, and more importantly, if, as was no doubt the hope in every case, the writers succeeded enormously, their entire output for six years was bound to DJM effectively for ever, whether published or not, and there was no provision for any increase in royalty rates. . . . I

consider that to have tied these two young men to DJM in 1967 for six years on the terms in question represented an unacceptably hard bargain.

Did Mr. Dick James assume a role of dominating influence? I consider that, brief though their acquaintance had been at this stage, he did. . . . Mr. James did not regard himself as obliged to give Mr. John or Mr. Taupin, nor did he give them, a thorough explanation of the terms of the proposed agreement. . . . [H]e told them that the terms were the standard terms within the industry. They were, as must have been obvious to him, trusting and relying on him that the contractual terms were fair and reasonable. The formality of requiring parental signature in the circumstances of these two men and their parents was not an adequate counterbalance to . . . their keenness to be signed by Mr. James [and] also, and importantly, and this is partly why they were so keen, in the trust they reposed in him as a man of stature in the industry [who] would treat them fairly. . . .

[A]t its inception the 1967 publishing agreement was an unfair transaction (I prefer to use this expression rather than “unconscionable,” but without intending any different meaning). . . . [T]here is no question of Mr. James having sought consciously to obtain an unfair advantage. At the time he thought his normal terms for a publishing agreement were standard in the trade and therefore fair [and] was acting in good faith. . . . [However,] one can obtain an unfair advantage by the exercise of a dominating influence without intending to act unfairly.

I come next to the 1967 recording agreement, regarding which I make the same finding on Mr. James’ good faith. . . . [A]t its inception this agreement was significantly disadvantageous to the artist Mr. John, in one important respect. . . . [Since] on the average a new artist will take three years to become established, a five year tie in this instance may not have been unreasonable . . . [but] where the agreement fell short of striking a reasonable balance was that it made no provision for any improvement in the royalty rate if, as happened here, the artist became a major success. . . .

As with the 1967 publishing agreement, so with this agreement, I think it is clear that . . . Mr. James was exercising a dominating influence over Mr. John regarding his career. Again, no proper explanation was given on the substantial implications of the agreement . . . [which,] with the single fixed low royalty rate, if for no other reason, constituted an unfair transaction.

[The Court then found that DJM had acted as John’s manager with respect to the 1970 recording agreement, even though DJM never took a commission from John on his publishing or recording activities and felt that he did not need management in these areas because his agreements were with James entities, because the agreement expressly recited that DJM was to manage “all the affairs of the Artist relating to his professional career” in any one of six enumerated areas. Noting that John was aware of the fact that the new agreement involved a five-year term, that he approved of the new royalty rates, and that he was pleased with DJM’s efforts on his behalf, the Court found that the 1970 recording agreement was not unfair. However, the 1971 renegotiation of the publishing agreements was insufficient to cure the taint attaching to the 1967 agreements, since the 1971 negotiations assumed the validity of the earlier agreements.]

One of the features which strikes me first about the present case is the lapse of time involved. The agreements sought to be set aside go back to 1967. It was almost 15 years thereafter before the defendants were given any notice of a claim to set aside the agreements on any ground. Secondly, it is to be noted that the subject matter of the agreements comprises copyrights and master recordings

which DJM and TRC were to spend effort and money in exploiting. In all fairness it behooves a party who wishes to claim the return of such property to act promptly when he becomes dissatisfied with the terms on which the property was transferred to the other party. . . . Thirdly, it should be noted that the plaintiffs have never made any criticism of the DJM organization's skill or diligence in carrying out its work. . . . Mr. John stated candidly in his evidence that they always gave him "100 per cent support." . . . [T]he DJM group has made a significant contribution to [John's and Taupin's] subsequent success. . . . Fourthly, the joint venture has indeed been outstandingly successful. . . . Excluding performance fees, up to the end of 1982 Mr. John and Mr. Taupin (or their employer companies) had received about £ 1.2 million and £ 1.1 million respectively under the publishing agreements and in the same period Mr. John (or his employer companies) had received about £ 13.4 million under the recording agreements. . . .

In 1969 Mr. John . . . had no qualms whatsoever about staying with the Dick James organisation. He accepted that he made a conscious and deliberate decision to stay although he knew that . . . his contracts might well be void [although he was skeptical about this advice from Island Records, which was anxious to acquire him as an artist]. [The same was true in the 1971 negotiations, in which John] did not raise with his solicitors the possibility that his contracts might be void . . . because "I was quite happy where I was." [Counsel was consulted in 1972 with respect to the potential impact of the *Schroeder* decision, but no action was taken, John and his advisers making a conscious choice to wait out the running of the terms of the contracts, keeping open the possibility of subsequently making claims.] . . . Looking at the matter from the point of view of the DJM group, for years it has conducted its business, and its relationship with Mr. John and Mr. Taupin, on the footing and in the belief that it was entitled to the copyrights on the terms of the publishing agreements. . . .

This state of affairs is not acceptable as a basis on which plaintiffs should come to the court in 1982 and ask for the publishing agreements to be set aside. . . . The balance of justice is firmly against setting aside the publishing agreements now . . . [and] I do not think that a case for equitable relief now in respect of [the 1970 recording] agreement has been made out. . . . [Even though] DJM's contractual management functions included recording, in my view that agreement (and the successor recording agreements) have, in the event, not worked unfairly to Mr. John.

[The Court proceeded to make the same findings with respect to Taupin.]

. . . [T]hose to whom the royalties are payable ought to be able to have trust and confidence that the publishing and record companies will treat them fairly in the exploitation arrangements made. And I have in mind the critical views I have expressed on [the "layering" of companies, each taking its share before John and Taupin were paid]. But in all the circumstances of this case these matters are not sufficient to tip the balance of justice or injustice in the plaintiffs' favour on the setting aside claim. In particular they do not cause me to revise my view that . . . it would not be just now to set aside the 1967 and subsequent publishing agreements or the 1967 recording agreement . . . [and] compensation is an adequate remedy in respect of the defendant's unauthorised profit-taking. . . .

[As for the claim with respect to the management agreement], even if the claim is expressed as a claim against a fiduciary to recover as an unauthorised profit the difference between the payment rates in the publishing and recording agree-

ments and the best obtainable, the claim is not one to recover “trust property”; it is one to which the normal six-year period of limitation applies. . . . No case of fraudulent concealment was put forward. . . .

[The Court additionally declined to impose personal liability on Dick James, because of the finding that the claim did not involve “trust property.” Damages against the DJM companies were left to subsequent calculation.]

NOTE

Mr. Justice Nicholls’ finding that James was a fiduciary in his capacity as a music publisher is contrary to the holding in the *Mellencamp* case (see Sec. 5.2.1).

6.6.2 The George Michael Case

All of the earlier cases involved artists at the outset of their careers—inexperienced, powerless, and vulnerable. Only the *Elton John* case involved an artist who had a sufficiently established track record to have attracted to himself the kind of high-level professional representation that customarily accompanies superstars. It was relatively easy for the English courts to apply the doctrine of contracts in restraint of trade under such circumstances. Then came the case of Georgios Panayiotou, better known as George Michael. For the first time, the High Court of Justice was asked to apply this doctrine to a contract entered into by an artist who had already achieved a substantial measure of wealth and fame. The following is the Summary of Judgment prepared by Mr. Justice Parker, the trial judge. The full opinion runs 273 typed pages, plus numerous appendices. The case has now been settled and Michael is now distributed by other record companies.

**Georgios Panayiotou v. Sony Music Entertainment (U.K.) Limited
High Court of Justice (CH 1992 P Nol. 8711) (June 1994)**

MR. JUSTICE PARKER

Background

In March 1982, George Michael and Andrew Ridgeley, who had formed themselves into the pop group “Wham!”, entered into a recording agreement with a newly-formed record company run by a Mr. Mark Dean and called Inner Vision (“the Inner Vision Agreement”).

In July 1983 Wham’s first album, “Fantastic,” was released.

In October 1983, Wham!’s solicitors (Messrs Russells) wrote to Inner Vision claiming that the Inner Vision Agreement was void or unenforceable because (among other things) it was an unreasonable restraint of trade. This led to legal proceedings between Wham! and Inner Vision. These legal proceedings were compromised by agreement, the Inner Vision Agreement brought to an end, and a new recording agreement entered into between Wham! and CBS dated 22 March 1984 (“the 1984 Agreement”).

The 1984 Agreement was an “8-album deal,” giving CBS the right to require Wham! to deliver, over time, sufficient recordings to constitute eight albums.

Following the signing of the 1984 Agreement, Wham! achieved substantial and ever-increasing success.

In November 1984 Wham!'s second album (the first under the 1984 Agreement), "Make It Big," was released.

In mid-1986 George Michael and Andrew Ridgeley decided to pursue separate careers as solo artists, and in July 1986 Wham!'s third and last album (the second under the 1984 Agreement) was released, appropriately entitled "The Final."

After the break-up of Wham!, the 1984 Agreement continued to apply to George Michael as a solo artist.

In November 1987 George Michael's first solo album, "Faith," was released. "Faith" proved to be an outstanding commercial success, and one which finally made George Michael's name as an international solo artist. Sales of "Faith" soared, to the point where by the end of 1987 some 4 million copies of the album had been sold.

During 1987 the terms of the 1984 Agreement were renegotiated with CBS, at George Michael's request. George Michael's aim in this renegotiation was (as his solicitor Mr. Tony Russell of Messrs Russells put it at the time) to be "treated on a par with other superstars." This renegotiation led to the making of a new recording agreement between George Michael and CBS dated 4 January 1988 (the "1988 Agreement").

The 1988 Agreement contains (among other things) improved financial terms for George Michael, and an obligation on him to deliver two additional albums to CBS. Leaving "Faith" out of account, two albums had been delivered under the 1984 Agreement ("Make It Big" and "The Final"), leaving a further six albums still to be delivered under that agreement. The 1988 Agreement is an "8-album deal," but it provides that "Faith," which had already been released, is to be treated as the first of those eight albums.

In January 1988 CBS was taken over by Sony.

George Michael spent the whole of 1988 abroad, most of that year being spent touring on what was known as "the Faith tour." For tax reasons, George Michael requested Sony to bring forward the dates of payment of various sums due to become payable to him under the 1988 Agreement, so that those sums should be received by him during 1988. Sony agreed, and in the event during 1988 George Michael received from Sony, by way of advances and royalties under the 1988 Agreement, a total of over £11,000,000.

During 1990 a further renegotiation of George Michael's financial terms took place with Sony, at his request. This renegotiation was designed to place George Michael's financial terms on a part with those of selected American superstars, and resulted in a variation agreement dated 26 July 1990 which further improved his terms.

In September 1990 George Michael's second solo album, "Listen Without Prejudice—Vol. 1" was released. In terms of sales, this album was not as successful as "Faith" had been.

On 14 February 1992 George Michael was advised by his lawyers that it was open to him to contend that the 1988 Agreement was unenforceable as being an unreasonable restraint of trade.

On 20 February 1992 George Michael's accountants wrote to Sony requesting payment of the advance of US\$1,000,000 due under the 1988 Agreement in respect of his next album, and the advance was paid.

In August 1992 the advance was repaid to Sony.

On 21 October 1992 George Michael's solicitors (Messrs Russells) wrote to

Sony claiming that the 1988 Agreement is unenforceable as being an unreasonable restraint of trade.

On 30 October 1992 George Michael started this action against Sony claiming that the 1988 Agreement is void or unenforceable.

George Michael's Claim

George Michael's claim that the 1988 Agreement is void or unenforceable is made on two bases:

- A. that the 1988 Agreement is an unreasonable restraint of trade; and
- B. that it is in any event rendered void by Article 85(2) of the EEC Treaty (which is directed at maintaining freedom of competition within the common market).

George Michael's claim is denied by Sony.

The Result

George Michael's claim on this basis fails.

In the first place, I am satisfied that the terms of the 1988 Agreement are reasonable and fair, and that accordingly the 1988 Agreement is not an unreasonable restraint of trade.

I emphasize that this conclusion relates to the particular terms of the 1988 Agreement, and that it has been reached on the basis of the evidence (including expert evidence) which I have heard in this case and in the light of the particular facts of this case.

It is to be borne in mind that the 1988 Agreement is a renegotiation of the 1984 Agreement; that by January 1988 George Michael was already an established artist who had just achieved enormous commercial success as a solo artist with his album "Faith"; that his aim in the renegotiation was to achieve parity "with other superstars"; and that the essence of the renegotiation, as embodied in the 1988 Agreement, was a substantial improvement in George Michael's financial terms in exchange for additional product.

In the second place, I conclude that in any event on the facts of this case it is not open to George Michael to challenge the 1988 Agreement on grounds of restraint of trade. There are three reasons for this conclusion, [which may be summarized] as follows:

1. There is a public interest in enforcing agreements reached by way of compromise of disputes. The 1984 Agreement formed part of the arrangements for the compromise of the legal proceedings between Wham! and Inner Vision, in which Wham! was claiming that the Inner Vision Agreement was unenforceable as an unreasonable restraint of trade. In such circumstances, it was not open to George Michael to claim that the 1984 Agreement was in turn unenforceable as an unreasonable restraint of trade. It follows that since the 1988 Agreement is a renegotiation of the 1984 Agreement, the same applies to the 1988 Agreement.

2. It would be unjust to Sony if the 1988 Agreement were now treated as unenforceable or void, given the following facts:

- (i) George Michael at all material times had access to expert legal advice from Messrs Russells and was well aware of the doctrine of restraint of trade;
- (ii) Sony's agreement to bring forward the dates of payment of various sums due

to become payable to George Michael under the 1988 Agreement, so as to enable George Michael to receive such sums during 1988;

- (iii) the variation agreement dated 26 July 1990; and
- (iv) George Michael's request for payment of the advance due in respect of his third album.

3. By requesting the advance for the third album in February 1992, at a time when he knew that it was open to him to challenge the 1988 Agreement on grounds of restraint of trade, George Michael affirmed the 1988 Agreement; and he cannot resile from that affirmation.

In answer to Sony's argument that it would be unjust to Sony to treat the 1988 Agreement as void or unenforceable (see 2 above), George Michael claims that Sony has conducted its affairs in relation to the 1988 Agreement in a way which has operated unfairly against him, and in support of his claim he makes a number of specific complaints about Sony's conduct. One such complaint is that Sony failed properly to market and promote "Listen Without Prejudice—Vol. 1" in the USA as the result of a deliberate policy decision to reduce its efforts on that album because George Michael had declined to appear in videos for the promotion of that album.

I am satisfied on the evidence that there is no substance in George Michael's claim of unfair conduct by Sony, or in any of the detailed complaints which he makes. In particular, I am satisfied that there was no such deliberate policy decision by Sony as George Michael alleges.

Article 85

George Michael's claim on this basis also fails.

Article 85(2) makes automatically void any agreements which are prohibited by Article 85(1). The 1988 Agreement, however, is not an agreement which is prohibited by Article 85(1), for two reasons:

- (i) It is not an agreement "which may affect trade between Member States" for the purposes of Article 85(1); and
- (ii) it is not an agreement "having as [its] object or effect the prevention restriction or distortion of competition in the common market" for the purposes of Article 85(1).

The arguments as to the application of Article 85(1) to the 1988 Agreement are, necessarily, of a somewhat technical and complex nature, and it would not be sensible to try to summarize them here. If more information is needed on this aspect, reference must be made to the written judgment.

In the result, George Michael's claims are dismissed.

6.7 BANKRUPTCY

Every entertainment attorney needs to have at least an awareness of the Bankruptcy Act. When a company commits a sizeable investment to an entertainment venture, it must consider the very distinct possibility that the recipient will end up in the Bankruptcy Court. The 1980s saw the formation of more than a dozen new film companies, such as DEG, Kings Road, MCEG, and Nelson, almost all of which were later involved in various types of bankruptcy proceedings. Even

the older, more established Orion Pictures had to resort to Chapter 11 in the early 1990s, despite having had two box office smashes, each of which took the Academy Award for best picture: *Silence of the Lambs* and *Dances With Wolves*.

The purpose behind the Bankruptcy Act is to provide a fresh start to a party who or which has reached a point at which recovery is possible but only after a readjustment of the party's obligations (Chapter 11) or a point at which recovery is simply impossible, a readjustment of obligations will not help, and the only practicable course is a liquidation of assets in favor of creditors (Chapter 7).

Companies and artists alike have resorted to bankruptcy protection with some frequency over the years. As the following cases indicate, the availability of this remedy is not absolute, and negative consequences may attend an attempt to utilize bankruptcy as a renegotiating tactic.

NOTE

For a discussion of the impact of Chapter 11, see David S. Kupetz, "Intellectual Property Issues in Chapter 11 Bankruptcy Reorganization Cases," 42 *J. Copr. Soc'y*, p. 68 (1994).

6.7.1 The Availability of Bankruptcy Protection

In the Matter of Noonan, 17 B.R. 793 (U.S.D.C. S.D.N.Y. 1982)

BABITT, BANKRUPTCY JUDGE

On its motion to convert the debtor's voluntary chapter 7 case to an involuntary chapter 11 case, the moving creditor invites this court to come up with a square holding in its favor on nice, round, undisputed facts. The court must decline the invitation and rule for the debtor as a round hole cannot accept the square peg which sets this case apart from others fitting more snugly into the statutory scheme. That uniqueness is based on who the debtor is, who the creditor is, what it wants from the debtor, and how it can go about getting it.

The controlling facts are not in dispute: Robert A. Noonan (Noonan or debtor) known professionally as Willie Nile, is a songwriter who performs and records his and the popular music of others. On June 24, 1981, Noonan filed a voluntary petition for the relief afforded by chapter 11 of the 1978 Bankruptcy Reform Act, 11 U.S.C. 1101 *et seq.* (Supp. IV 1980), Pub.L. 95-598, 92 Stat. 2549 *et seq.* The sworn schedules filed with Noonan's petition reveal there are virtually no free assets from which dividends might be paid to his creditors. His artistic endeavors generate Noonan's sole source of income, and as to these, he is subject to an exclusive recording contract (Arista contract) with Arista Records, Inc. (Arista), the moving party in this dispute. And, as the debtor's endeavors to terminate his relationship with Arista are at the crux of their differences, some key points of the Arista contract should be noted. Noonan entered into it on November 14, 1978 and by its terms he was obligated to record exclusively for Arista for an initial period of eighteen months. Noonan was obligated to record at least two albums during this period and Arista was given an option to extend this eighteen month period for three consecutive periods of like duration.

Noonan did record two albums pursuant to this Arista contract for which Arista advanced approximately \$300,000. Noonan is not personally obligated to repay this money; Arista is entitled, on the other hand, to recoup these advances from

future royalties. Although these albums received acclaim from critics, sales were modest and royalties fell far below the amount Arista is entitled to recoup.

Nonetheless, Arista has decided to exercise its option to hold Noonan to a second 18-month term, during which time he would be obligated to record two additional albums. There is nothing invidious in this action, as it is clear Arista hopes to recoup its losses from future recordings. Noonan, however, sees things otherwise for he now finds himself in a position where the sales for a third album would have to exceed one million units to reach the \$500,000 recoupment Arista would be entitled to after advancing production costs for this new album.

Dissatisfied with this arrangement, and with his eyes and mind focused on a more favorable artistic and monetary environment, Noonan, as debtor in possession, 11 U.S.C. 1101(1), moved for an order rejecting the Arista contract as executory, a right given by 11 U.S.C. 365 to trustees and to chapter 11 debtors in possession by the force of 11 U.S.C. 1107. The right given to reject executory contracts as a matter of a debtor's business judgment, is part of the warp and woof of the fabric of bankruptcy. It was in the 1898 Act, and kept in later revisions in Sections 70(b) and in the debtor relief chapters, Section 77(b) (Reorganization of Railroads), Section 82(b)(1) (Adjustment of Debts of Political Subdivisions, etc.), Section 116(1) (Chapter X), Section 313(1) (Chapter XI), Section 413(1) (Chapter XII) and Section 613(1) (Chapter XIII). Indeed, plans offered creditors by these debtor relief supplicants under earlier statutes could provide for the rejection of executory contracts. By thus seeking rejection of the Arista contract, Noonan swiftly and surely let Arista know that he would no longer record for that company.

Arista vehemently opposed Noonan's motion and began to prepare for all out war. Perceiving the effusion of time, energy and money he would need to battle Arista on the contract, Noonan exercised his absolute right to convert his chapter 11 case to a chapter 7 case. 11 U.S.C. 1112(a). Noonan's application acknowledged that the impulse for converting to a chapter 7 case was to take advantage of the automatic rejection of executory contracts given by 11 U.S.C. 365(d)(1). Noonan quite properly sensed that his bankruptcy trustee could not assume the Arista contract, for while he might force Noonan to the recording studio, he could not make him sing or play. Noonan also understood that the Arista contract is not the kind of contract capable of assignment by the trustee after assumption. As there could be no assumption or assignment, the trustee would either reject or the Arista contract would be deemed rejected. 11 U.S.C. 365(d)(1) is clear as to this synergism. Thus, the court entered an order achieving the conversion to chapter 7. The United States Trustee appointed an interim trustee who later qualified as trustee. 11 U.S.C. 15701.

Understandably shaken by the direction Noonan's life may take following the unfolding of the chapter 7 process and the exclusion of Arista from Noonan's future, the former moved under 11 U.S.C. 706(b) to put the debtor back into chapter 11 nullifying his chapter 7 choice. Arista also moved the court to shorten Noonan's time to file his chapter 11 plan and to permit Arista to file its plan, a course permitted by 11 U.S.C. 1121's scheme.

Arista's position is that it will fund a plan which will give the debtor's creditors, Arista included, more than they could hope to garner from a liquidation of his non-exempt property. Moreover, Arista says that its plan will give Noonan a \$10,000 advance to be recouped later.

But all of this generosity to Noonan's other creditors is not engendered by

eleemosynary motives. Any such plan offered by Arista is dependent upon a condition precedent, *i.e.*, the assumption and the affirmance by Noonan of the Arista contract.

Arista claims to find support for all this in the authority in the 1978 Code for an involuntary chapter 11 case, the impulse for which was Congress' feeling that a debtor's creditors should be able to realize on his assets through reorganization just as in a liquidation. H.R.Rep.No. 95-595, 95th Cong., 1st Sess. 322 (1977) U.S. Code Cong. & Admin. News 1978, p. 5787. In furtherance of this, Arista says that reconversion to chapter 11, assumption of its contract with Noonan and confirmation of its plan will work and everyone will be happy.

Everyone except Noonan, that is. He says nothing can compel him to assume or reaffirm his contract with Arista and that this court, even if it could force him, should not as a matter of equity, for to do so would interfere with his fresh start and place him in involuntary servitude.

Therefore, Noonan argues that for the court to decree reconversion would be a futile act preordained to result in his return to chapter 7 as Arista's chapter 11 dreams can never be realized. So, he says, Arista's motion should be denied, a view with which the court agrees.

The court has carefully considered these factors for all are clearly relevant, since the decision to convert under Section 706(b) is left to the sound discretion of the court, an exercise which should include consideration of the best interests of both the creditors and the debtor. See House Report, *supra*, at 880; S.Rep.No.95 989, 95th Cong., 2d Sess. 94 (1978). But, of equal importance is "what is fair and equitable under the *peculiar circumstances of the particular case, guided by the spirit and purpose of the law.*" *Manekas v. Allied Discount Co.*, 6 Misc.2d 1079, 166 N.Y.S.2d 366 (N.Y.Sup.Ct. 1957).

Wisely, Congress did not give creditors the unfettered right to insist on conversion of a debtor's case for, by leaving this decision to the court's discretion, the court is free to explore "what is below the surface of the statute and yet fairly part of it." Frankfurter, *Some Reflections on the Reading of Statutes*, 47 Colum.L.Rev. 527, 533 (1947).

Arista says that in exercising its discretion the court should not consider the Noonan contract now. And so, the court now addresses what it considers relevant to Arista's contention.

The purpose of the usual chapter 11 case is a business reorganization. It is premised upon the theory that the assets of a business in use are more valuable than those same assets sold in a liquidation sale for the benefit only of their purchaser. Efforts are made to preserve and conserve the value of assets. House Report, *supra*, at 22. And by permitting involuntary reorganization, Congress reasoned that creditors should be able to realize on these assets through reorganization, as well as liquidation. But these typical factors are foreign to this case, as it simply refuses to be typical and application of customary chapter 11 principles on the facts here cannot work. This debtor is an individual; an artist. He has no tangible assets available for distribution. He earns his living by his creativity, by his voice, and by the combination of the two. The Arista contract is merely the instrumentality for the exploitation of the debtor's talents.

The Arista contract is clearly an executory contract. 11 U.S.C. 541 vests the debtor's estate with all the debtor's property as of the commencement of the case. A seeming exception to the sweep of this rule continues for executory

contracts, for the Code continues prior law by postponing vesting of the debtor's rights and duties until assumption. 2 *Collier on Bankruptcy* (15th ed.) ¶ 365.01.

But a personal service contract was never the kind of contract treated by Section 70(b) of the 1898 Act; it never was and could not be property of the estate for the purposes of the section. The law under the 1898 Act was clear and there is nothing in the 1978 Code indicating any change. Where an executory contract between the debtor and another is of such a nature as to be based upon the debtor's personal skill, the trustee does not take title to the debtor's rights and cannot deal with the contract. . . . The Arista contract is simply not the kind of an asset to which the creditors can look by insisting that the debtor assume it.

Since a personal service contract does not vest in the debtor's trustee, services performed under it would appear not to be "for the benefit of the estate, but rather for the personal benefit of the bankrupt. . . ." *Ford, Bacon & Davis, Inc. v. Holahan*, 311 F.2d 901, 904 (5th Cir. 1962). For policy, practical and constitutional reasons, these contracts are *sui generis*. Clearly, the answer to Arista is that its contract is not an asset that can be used for its benefit nor in the debtor's plan absent his consent. And, as it appears to be Noonan's only potential asset of value, the underpinning for Arista's conversion motion has been removed.

To be sure, Arista's frustration is understandable. However, it must have known it was dealing in an area which historically fashioned its own rules. It is a longstanding rule that courts of equity will not order specific performance of personal service contracts. . . .

In *ABC v. Wolf*, 52 N.Y.2d 394, 438 N.Y.S.2d 482, 420 N.E.2d 363 (1981), the plaintiff, ABC, and the defendant, Wolf, a prominent New York City sportscaster, had entered into an employment contract containing a good faith negotiation and right of first refusal clause. This provision operated to bind Wolf to negotiate with ABC for 90 days, following which Wolf was required to afford ABC a right of first refusal before he accepted another offer of employment. In its action, ABC alleged that Wolf had breached this provision and sought specific performance as well as an injunction to bar Wolf's employment at CBS. The Court of Appeals refused to grant this relief after its review of the principles of specific performance applicable to personal service contracts. . . .

These considerations are the indices of a mature, democratic society. And hand in hand with their reaffirmation is recognition that where problems have arisen in a contractual relationship calling for the performance of purely personal services, the termination of that relationship terminates the problems, to paraphrase Mr. Justice Frankfurter in *Peres v. Brownell*, 356 U.S. 44, 60, 78 S.Ct. 568, 2 L.Ed.2d 603 (1958). It follows from all these generalities not only that Noonan cannot be compelled to abide by his contract with Arista but that it must be rejected for it cannot be assumed unless Noonan wants it so. It therefore must also follow that Arista's attempt to restore Noonan to chapter 11 status has to be denied for its rationale is rejected by Noonan on the facts and by this court on the law.

And that result is consistent with Congress' views found elsewhere. Congress was not unaware that the prohibition against involuntary servitude loomed large in bankruptcy, and Congress therefore magnified its concern on the area of involuntary chapter 13 cases. 11 U.S.C. 1301 *et seq.* Here Congress acted to dispel even the remotest possibility of involuntary servitude by prohibiting involuntary chapter 13 cases. 11 U.S.C. 303(a); 11 U.S.C. 706(c).

Arista would have the court ignore this expression of a general Congressional mood by insisting that Congress' concerns in the chapter 13 case are irrelevant to the motion to convert Noonan to a chapter 11 debtor pursuant to 11 U.S.C. 706(b), for Arista says that it is a party in interest and that Noonan, at least facially, is an eligible chapter 11 debtor. 11 U.S.C. 109(a),(d). So, Arista concludes, the statute is satisfied and it must prevail. But this syllogism ignores the reality. Courts are often faced with situations not envisioned by the most gifted legislative imagination.

The fact is that Congress perceived the usual [chapter] 13 case as emanating from a non-business debtor and determined to make the relief of that chapter voluntary in order to avoid the spectre of involuntary peonage for a hapless debtor laboring for his creditors on their petition and their plan which could strip the debtor and his family of all that made their lives otherwise worth living.

It is also the fact that Congress perceived chapter 11 of the 1978 Code, an amalgam of many of the features of chapters X, XI and XII of the 1898 Act, as a reorganization device, mainly for non-individually operated businesses, and occasionally for the small sole proprietor ineligible for chapter 13 relief. . . . From that vantage point, it was Congress' view that the chapter 11 petition could emanate from the debtor's creditors, thereby bringing the debtor involuntarily into the bankruptcy process.

The possibility, therefore, that the rare and unique kind of fact pattern present here in which there lurks the real possibility of the involuntary servitude with which Congress was concerned in chapter 13 never occurred to it when it perceived chapter 11.

But this is not to say that this court should ignore Congress' concerns on facts it did not foresee because comment was made about concerns on facts it did foresee. The policy against forcing an individual to work against his will is applicable, if the facts present themselves, in chapter 11 as well as in chapter 13. Congress' concerns are so strongly expressed in connection with chapter 13 that this court would be remiss were it to apply them only there. . . .

It is thus clear from the strong policy considerations of Congress which, on the facts here, touch on Constitutionally protected areas, that Arista's motion, addressed to this court's discretion, must fail. This is so because the relief it seeks, *i.e.*, reinstatement of Noonan's chapter 11 case, is itself destined to fail for the reasons already described.

Finally, it is clear that Arista's proposed plan would defeat a primary purpose of the Code "to allow the individual debtor to obtain a fresh start, free from creditor harassment and free from the worries and pressures of too much debt." House Report, *supra*, at 125. See *Perez v. Campbell*, 402 U.S. 637, 91 S.Ct. 1704, 29 L.Ed.2d 233 (1971). If the debtor could be compelled to assume the Arista contract, he would leave this bankruptcy court subject to at least \$300,000 of indebtedness, which Arista could recoup from his future earnings. Moreover, as Arista concedes, a confirmed plan reaffirming the contract would subject Noonan to the very real likelihood of protracted litigation. Clearly, the full potential reach of Arista's "scheme" would deprive Noonan of the full scope of his discharge.

As the full measure of a debtor's fresh start flowing from the bankruptcy process is vital to Congress' mission in enacting the Code, *cf.*, *Powell v. U.S. Cartridge Co.*, 339 U.S. 497, 516, 70 S.Ct. 755, 765, 94 L.Ed. 1017 (1950), anything which would frustrate the mission must be scrutinized carefully. Arista's attempts

to manipulate the bankruptcy process for its own ends is found seriously wanting. . . .

NOTE

In the Matter of Taylor, 913 F.2d 102 (3d Cir. 1990), a member of the group known as “Kool and the Gang” filed a Chapter 11 bankruptcy petition and sought to reject his exclusive music publishing agreement. His publisher objected (citing, among other grounds, that the petition was not filed in “good faith”) and asked the court to dismiss the action. In the first reported appellate decision on the issue, the court held that executory contracts for personal services may be rejected.

In re Carrere, 64 B.R. 156 (U.S.D.C. C.D. Ca 1986)

MUND, BANKRUPTCY JUDGE

Statement of Facts

[Carrere had been a member of the cast of the ABC soap opera “General Hospital” for three years, her contract guaranteeing her an average of 1.4 performances per week, at a salary of \$600–700 for each 60-minute program in which she appeared. She made a guest appearance on the “A Team,” under an agreement under which, if she became a regular cast member, she would earn considerably more than she would on “General Hospital.” Carrere filed a voluntary petition under Chapter 11, and attempted to reject the executory ABC contract.]

In her declaration in support of the motion to reject, Carrere makes it clear that her primary motivation . . . was to reject the contract with ABC so as to enter into the more lucrative contract with A Team. In fact, she claims she did not enter into the contract with A Team until she had obtained advice that the bankruptcy would allow her to reject the contract with ABC. In her schedules she claims unsecured debt only. Her stated liabilities are \$76,575 and her assets are \$13,191. The amount of debts is disputed by ABC.

ABC vigorously opposed the rejection of its contract and has sought extensive discovery concerning Carrere’s liabilities and motivations in filing this bankruptcy. ABC also brought a motion to dismiss the Chapter 11 proceeding on the grounds that it was filed in bad faith.

Analysis

The key issue to be determined by this Court is whether a debtor, who is a performer under a personal services contract, is entitled to reject the contract by virtue of the provisions of 11 U.S.C. sec. 365. . . .

A Personal Services Contract is Not Property of the Estate in Chapters 7 or 11

The concept of sec. 365 is that the trustee, in administering the estate, may assume (and even assign) contracts which are advantageous to the estate and may reject contracts which are not lucrative or beneficial to the estate. 2 Collier on Bankruptcy (15th ed.) para. 365.01. It is not the trustee’s duty to benefit the debtor’s future finances, but he is to maintain the property of the estate for the benefit of the creditors.

The threshold issue to be determined is whether the ABC contract is “property of the estate.” If it is not, the trustee has no standing to assume or reject it. [Note: The practical issue raised here is whether Carrere may deprive ABC of a

cause of action for a negative injunction if she seeks further employment under the A Team Contract.] . . .

11 U.S.C. sec. 541(a)(6) states that property of the estate does not include “earnings from services performed by an individual debtor after the commencement of the case.” . . . [P]ost-petition earnings from personal services contracts are thus excluded from the Chapter 7 or Chapter 11 estate. Does this exclude the contract itself? . . . The language of sec. 541(a)(6) . . . is an enactment of case law which specified that where an executory contract between the debtor and another is based upon the personal service or skill of the debtor, the Trustee does not take title to the debtor’s rights in the contract. *Ford, Bacon & Davis, Inc. v. M.A. Holahan*, 311 F.2d 901 (5th Cir. 1962). . . .

Under the Code, it has been held that a contract for personal services is excluded from the estate pursuant to both sec. 541(a)(6) and sec. 365(c). *In re Bofill*, 25 B.R. 550 (Bankr.S.D.N.Y. 1982)[and *Matter of Noonan*, supra]. . . .

Since the trustee has no interest in the contract, he has no standing to act at all under sec. 365. Therefore, he cannot assume or reject the contract.

The Rights of a Debtor-in-Possession Are No Greater Than Those of a Trustee

. . . Upon the filing of a Chapter 11, Ms. Carrere created a new entity called a debtor-in-possession. . . . She is granted the rights and duties of a trustee (11 U.S.C. sec. 323). Therefore, while the debtor (Tia Carrere) may have duties under the ABC contract and may wish to reject those duties, the debtor-in-possession (who represents the estate of Tia Carrere) has no rights or duties whatsoever in the contract and therefore is a stranger to it. . . .

. . . The contract never comes under the jurisdiction of the Bankruptcy Court. The Court has no interest, the estate has no interest, and even if the debtor-in-possession were allowed by consent of all parties to assume the contract under 11 U.S.C. sec. 365, the assumption would not create an asset of the estate, for the proceeds would never be an asset of the estate, nor would the contract be assignable. Therefore, no rights of assumption are vested in the debtor-in-possession.

The only one who has rights or duties under the contract is the debtor herself. But the statutory scheme of sec. 365(d)(1) does not allow the debtor to reject an executory contract. It only allows the trustee to do so.

Therefore, this Court finds that sec. 365 . . . does not apply to a personal services contract in a bankruptcy case under Chapter 7 or 11, whether or not a trustee has been appointed.

It Would Be Inequitable to Allow the Contract to Be Rejected

Beyond the legal arguments described above, the Court is concerned about the good faith issue of allowing a debtor to file for the primary purpose of rejecting a personal services contract. A personal services contract is unique and money damages will often not make the employer whole. . . .

The Bankruptcy Court is a court of equity, as well as a court of law. It would be inequitable to allow a greedy debtor to seek the equitable protection of this Court when her major motivation is to cut off the equitable remedies [e.g., negative injunction] of her employer.

For that reason, this Court finds that there is not “cause” to reject this contract, if the major motivation of the debtor in filing the case was to be able to perform under the more lucrative A Team contract. It is clear that for Carrere this is the

major motivation, even if it is not the sole motivation. Therefore, rejection is denied for lack of cause.

Rejection Would Not Relieve the Debtor of a Possible Negative Injunction

There is yet another issue that arises and impacts on the ultimate outcome of such cases: if rejection were permitted, what would be its effect on the creditor's right to seek a negative injunction against the debtor?

Rejection of an executory contract constitutes a breach, which is deemed to have occurred immediately before the date of the filing of the petition (11 U.S.C. sec. 365(g)(1)). The claim for monetary damages thus becomes a claim in the estate (11 U.S.C. sec. 502(g)).

But a rejection under the Bankruptcy Code only affects the monetary rights of the creditor. It does not disturb equitable, non-monetary rights that the creditor may have against the debtor because of the breach of contract.

... California law has given ABC an equitable remedy: to seek a negative injunction against Carrere and thereby prevent her from performing elsewhere. Rejection of the ABC contract would not interfere with ABC's rights to seek that equitable remedy. Rejection would merely categorize any claim for monetary damages as pre-petition debt. Therefore, whether this Court were to allow rejection or not, Carrere cannot use the Bankruptcy Code to protect her from whatever non-monetary remedies are enforceable under state law.

On both the legal and equitable grounds set forth above, Carrere's Motion to Reject the contract is denied.

NOTES

1. In a significant unreported decision in 1988, the United States Bankruptcy Court for the Central District of California, in a bankruptcy petition involving the members of the recording group "Concrete Blonde," held that where the primary purpose of the bankruptcy filing was to reject an executory personal service contract (in that case, a recording agreement with IRS Records), the contract was not dischargeable in bankruptcy. In that case all three members of the group simultaneously filed voluntary petitions under Chapter 7 after delivering one record to the record company. The bankruptcy schedules did not evidence other significant debts or a distressed financial condition. In addition, 18 days after the filing of the bankruptcy petitions, the group performed a "showcase" concert at the Roxy in West Hollywood, California to attract the attention of other record companies. This evidence was sufficient to convince Bankruptcy Judge Mund that the subject personal service contracts could not be assumed by the Trustee or rejected by the Trustee or the Debtor and, accordingly, the Bankruptcy Code did not affect the future enforceability of those recording agreements. Subsequent to the decision Concrete Blonde and IRS settled their differences, and Concrete Blonde went on to release very successful records. See United States Bankruptcy Court for the Central District of California, Action No. LA 87-18212.

2. Many entertainment agreements attempt to modify the effect of the Bankruptcy Code on the agreement by a specific contractual provision. Common in book publishing agreements, these clauses attempt to force a reversion of rights to the author in the event of a voluntary or involuntary filing of bankruptcy by the publisher. These clauses are known as *ipso facto* provisions. Although they were enforceable under the former Bankruptcy Act, Section 541(c) of the Bankruptcy Code now invalidates these provisions in agreements that attempt to circumvent the Bankruptcy Code by a restriction of transfer or termination of interest that is conditional upon a bankruptcy action.

3. For a detailed discussion of the effect of bankruptcy on entertainment industry con-

tracts, see Leslie A. Cohen and David L. Neale, “Bankruptcy and Contractual Relations in the Entertainment Industry—An Overview,” in *1990 Entertainment, Publishing and the Arts Handbook* 375 (1990). Also see Chrystie, Gould, and Spoto, “Insolvency and the Production and Distribution of Entertainment Products,” in *The Entertainment and Sports Lawyer* (Spring 1988).

6.7.2 The Consequences of Bankruptcy

The question of whether or not bankruptcy protection is available in a given instance is only the first part of the analysis. What happens *afterward*? What happens to rights granted by the debtor prior to the bankruptcy, and who gets the revenues derived from the exploitation of those rights?

Section 365(g) of the Bankruptcy Code provides that the rejection of an executory contract constitutes a breach on the part of the debtor, but this may be small consolation where (as is usually the case) a debtor’s assets don’t begin to cover outstanding indebtedness.

However, Section 365(n) of the Bankruptcy Code provides some relief: licensees of intellectual property rights may elect (under Section 365(n)(1)) to retain the rights previously licensed to them. Section 101(56) contains a broad definition of intellectual property, including “copyrights” (which, under Section 102 of 17 U.S. Code include “literary works; musical works, including any accompanying words; dramatic works, including any accompanying music; pantomimes and choreo-graphic works; . . . motion pictures and other audiovisual works; [and] sound recordings.”) Thus, licensees in every area with which this book is concerned can elect to continue to exploit the rights licensed to them when their licensors go bankrupt, subject, of course, to the obligation to continue to pay royalties. Moreover, while the licensee retains the right to recoup advances if it elects to retain the licensed rights, any rights of set-off are waived. The licensee will still have the right to assert a claim of breach of contract, but the licensee may not assert a claim that it is entitled to priority over other creditors.

Who gets the post-bankruptcy royalties? The issue is addressed in the following cases.

Waldschmidt v. CBS, Inc., 14 B.R. 309 (U.S.D.C. M.D. Tenn. 1981)

WISEMAN, DISTRICT JUDGE

This action involves a dispute between the bankruptcy trustee for the estate of musician George Jones and the defendant CBS, Inc., concerning who is entitled to the royalties from the sale of certain records made by Mr. Jones pursuant to his recording contract with CBS. Because the recordings were made by Mr. Jones prior to the date of his voluntary bankruptcy petition, the trustee argues that any royalties derived from their sale are the property of Mr. Jones’ estate and therefore should pass to the trustee. CBS, on the other hand, argues that because the royalties actually stem from services rendered under a personal services contract—the recording contract between Mr. Jones and CBS—they are not the property of Mr. Jones’ estate and do not pass to the trustee. CBS’s argument is important because it also alleges that under the contract it is entitled to recoup from these royalties certain advances it made to Mr. Jones prior to his bankruptcy. CBS’s fear is that if the royalties are deemed the property of the estate, its right of recoupment would dissipate and it would be forced to proceed as an

ordinary creditor of Mr. Jones to recover the money it advanced to him. The advances far exceed the royalties collected to date, and if treated like any other creditor, CBS would be unable to recover the full amount of the advances.

Each party in this action has moved for summary judgment pursuant to Rule 56, F.R.Civ. P. Because no genuine issue regarding any material fact exists, this cause is ripe for summary judgment. Having reviewed the pertinent facts and law, this Court now makes the following determinations: (1) that the royalties are the property of Mr. Jones' estate; (2) that although the royalties are the property of the estate, CBS is entitled to recoup the full amount of the advances from these royalties; and (3) that the trustee is entitled to an accounting of the royalties and of the amounts recouped by CBS. . . .

The threshold issue in this case is whether the royalties constitute "property" within the meaning of section 70(a)(5) of the old Bankruptcy Act. That section provides in relevant part:

(a) The trustee of the estate of a bankrupt . . . shall . . . be vested by operation of law with the title of the bankrupt as of the date of the filing of the petition initiating a proceeding under this title, except insofar as it is to property which is held to be exempt, to all of the following kinds of property wherever located. . . . (5) property, including rights of action, which prior to the filing of the petition he could by any means have transferred. . . .

CBS bases its argument that the royalties are not property within the scope of section 70(a)(5) on two grounds. First, CBS argues that because the recording contract between Mr. Jones and CBS was one for personal services, both the contract itself and any rights growing out of it—such as the right to royalties—were nontransferable and nonseverable as of the date of the bankruptcy petition, December 13, 1978. Second, CBS argues that even if Mr. Jones had transferable rights in the royalties in December 1978, royalty rights are not the type of property intended to be covered by section 70(a)(5). The trustee counters CBS's contentions by arguing that Mr. Jones had unquestionable rights in any royalties collected by CBS from sales of his records, that these rights were clearly alienable by Mr. Jones, and that "property" as meant by section 70(a)(5) includes the rights to the royalties here in dispute.

In regard to the first point of contention, this Court finds that nothing in the nature of the recording contract itself prevents the rights to the royalties from passing to the trustee. As CBS argues, it is generally true that a contract for personal services is "nonassignable." What this rule means, however, is simply that the performance of the particular personalized service itself is nondelegable, not that the right to payment for any such service may not be assigned once performance has occurred. *See Corbin, Corbin on Contracts* 805 (1952). . . .

. . . CBS argues that Mr. Jones was still obligated under the contract to certain promotional activities, as well as live performances, before he was entitled to receive the royalties.

While it is true that Mr. Jones did have certain obligations outstanding under the overall contract with CBS, this Court cannot agree that Mr. Jones' right to the royalties was expressly conditioned on such additional activity. Mr. Jones completed performance of the basic contractual duties upon which the receipt of royalties was conditioned by making the master recordings from which the records were ultimately pressed. Mr. Jones did have other obligations under the

contract, but these obligations did not affect his right to royalties from the record sales. If anything, Mr. Jones' further obligations seemed designed to boost record sales, and it is only in that respect that they affected the royalties. This Court rejects CBS's argument, then, and accepts the contention of the trustee that any contingency that did exist in Mr. Jones' contract regarding the royalties would at most affect the marketability of Mr. Jones' interest, but not its assignability. See *In re Malloy*, 2 B.R. 674 (Bkrcty. M. D. Fla. 1980).

Having concluded that the personal services nature of the recording contract does not preclude passage to the trustee of Mr. Jones' rights to the royalties, this Court must now decide whether these rights are in fact the sort of "property" intended to pass to the trustee under section 70(a)(5). Although the definition of property under section 70(a)(5) has been considered by the courts on numerous occasions, no case appears to have addressed this particular question directly. Despite the absence of a specific precedent, the voluminous case law that has evolved under section 70(a)(5) does provide guidelines for this Court's inquiry. Taking the existing interpretations into consideration, this Court concludes, in this case of apparent first impression, that the royalty rights here are property under section 70(a)(5) of the Bankruptcy Act.

It is well established that the term "property" as employed in section 70(a)(5) is to be given a broad interpretation. . . . The simple fact that Mr. Jones could not actually collect the royalties until some time after the date of his bankruptcy petition, then, does not prevent his rights to those royalties—which effectively accrued before his bankruptcy—from being considered property under section 70(a)(5). . . .

While "property" under section 70(a)(5) is thus broadly defined, its scope is not unlimited. As the Supreme Court noted in *Segal*, "[L]imitations on the term do grow out of other purposes of the Act; one purpose . . . is to leave the bankrupt free after the date of his petition to accumulate new wealth in the future." 382 U.S. at 379, 86 S. Ct. at 514, 15 L.Ed.2d at 432. Elaborating on this restriction, the Court in *Lines v. Frederick*, 400 U.S. 18, 19, 91 S.Ct. 113, 114, 27 L. Ed. 2d 124, 127 (1970), stated,

The most important consideration limiting the breadth of the definition of "property" lies in the basic purpose of the Bankruptcy Act to give the debtor a "new opportunity in life and a clear field for future effort, unhampered by the pressure and discouragement of preexisting debt. The various provisions of the bankruptcy act were adopted in the light of that view and are to be construed when reasonably possible in harmony with it so as to effectuate the general purpose and policy of the act."

(citing *Local Loan Co. v. Hunt*, 292 U.S. 234, 244–45, 54 S. Ct. 695, 699, 78 L.Ed. 1230, 1235 (1984)). The test for determining whether the inclusion of certain items in the estate is consistent with the purpose and policy of the Bankruptcy Act is whether the bankrupt's claim to the asset is "sufficiently rooted in the prebankruptcy past and so little entangled with the bankrupt's ability to make an unencumbered fresh start that it should be regarded as 'property' under 70a(5)." *Segal v. Rochelle*, 882 U.S. 375, 380, 86 S. Ct. 511, 515, 15 L. Ed2d 428, 432 (1966). This Court believes that Mr. Jones' interest in the royalties meets this test and should be considered the property of his estate under section 70(a)(5). . . .

In characterizing assets for the purposes of section 70(a)(5), the courts have developed no clear mode of classification. Indeed, the Supreme Court itself has stated that “property” as meant by section 70(a)(5) “has never been given a precise or universal definition.” Moreover, “it is impossible to give any categorical definition to the word . . . , nor can we attach to it in certain relations the limitations which would be attached to it in others.” *Kokoszka v. Belford*, 417 U.S. 642, 645, 94 S.Ct. 2431, 2433, 41 L.Ed.2d 374, 378–79 (1974). Rather than erecting hard and fast categories, then, the courts have taken a case-by-case approach and analyzed each asset on an individualized basis. Essentially, the courts have applied a balancing test to each specific situation, employing the *Segal* formula and weighing the degree of relation between the asset and the “prebankruptcy past” against the potential effect that placing the asset in the estate would have on the bankrupt’s ability to make an “unencumbered fresh start” after bankruptcy.

Applying this balancing test to the facts of this case, this Court finds that Mr. Jones’ rights to the royalty payments are indeed sufficiently rooted in the prebankruptcy past to warrant inclusion of the royalties within Mr. Jones’ estate. The recordings involved here, from which the royalties derive, were completed prior to the filing of the bankruptcy petition. Moreover, while Mr. Jones did have certain outstanding obligations under his contract with CBS, his right to payment was not so conditioned on his performance of these additional duties that the royalties should not be deemed property under section 70(a)(5). Moreover, including the royalties within the estate would not unduly handicap Mr. Jones’ efforts to make an unencumbered fresh start because the royalties are in fact derived from recordings made prior to Mr. Jones’ bankruptcy. As this Court is aware from other proceedings involving Mr. Jones, he has already devised a plan to repay his creditors and is presently once again engaged in recording and public appearances. . . .

Although the royalty payments owed to Mr. Jones were not due *in toto* on any one specific date, the arrangement between Mr. Jones and CBS did require a regularized system of accounting and payment to Mr. Jones at six-month intervals. Moreover, nothing in the fact of Mr. Jones’ bankruptcy has (or had) any effect at all upon CBS’s obligation to pay the royalties. That obligation matured upon the completion of the recordings by Mr. Jones, and nothing has since occurred to alter it. While the example of wages is not a perfect analogy—for there is no perfect analogy to this case—the reasoning of the Sixth Circuit in this respect is persuasive. Coupled with this Court’s previous conclusion that any impediment to Mr. Jones’ ability to start anew is far outweighed by the prebankruptcy nature of the royalties’ roots, *Aveni* provides ample basis for including the royalties within the estate.

This Court thus rules that the royalties owed by CBS, Inc., to George Jones because of recordings made by Mr. Jones prior to the date of his bankruptcy petition are property within the scope of section 70(a)(5) of the Bankruptcy Act and pass to the trustee for the benefit of the estate. The argument of CBS is accordingly rejected. . . .

Although this Court has ruled that the royalties are the property of the estate under section 70(a)(5), this Court also holds that CBS is entitled to recoup the full amount of its advances to Mr. Jones from these royalties.

The trustee attempts to argue that CBS must proceed with its claim under the restrictive setoff provisions of section 68 of the Bankruptcy Act, instead of possessing a general right of recoupment. The trustee apparently seeks to argue not

only that recoupment is covered by section 68 but also that the set-off and recoupment processes are equivalent. The trustee is sorely mistaken on both points.

In the first place, no authority exists to support the trustee's assertion that recoupment is within the ambit of section 68. Indeed, there is ample authority to the contrary. . . .

Additionally, the recoupment process is different from the requirements for set-off. While set-off under section 68 is limited to instances involving mutuality of obligation, recoupment is subject to no such limitation. . . . The only real requirement regarding recoupment is that a sum can be reduced only by matters or claims arising out of the same transaction as the original sum. . . . Despite the trustee's contention, the advances and royalties involved in this case unquestionably arise from the same transaction. Both grow out of the recording contract between Mr. Jones and CBS. In fact, no dispute over the royalties would exist but for the express provision in the contract calling for advances and their recoupment from royalties. Additionally, no question exists regarding the enforceability of such a contract provision against the bankruptcy trustee. . . . In view of these considerations, CBS is clearly entitled to recoup its advances from the royalties at issue in this case. . . .

As a final point, this Court rules that the trustee is entitled to an accounting of all royalties received by CBS from the sale of recordings made by George Jones prior to the date of his bankruptcy. The trustee is also entitled to an accounting of all advances to date recouped by CBS from these royalties. Because this Court has held that the royalties are the property of the estate, but subject to CBS's right of recoupment, the trustee must have all information regarding the royalties and advances. The trustee now stands in the place of the bankrupt with regard to these royalties. Should CBS recoup its advances and there be undepleted royalties, these would pass to the trustee for the benefit of the estate. The trustee must know if that event is a possibility, and if so, at what point in time it might occur. An accounting is thus necessary so that the trustee may be fully informed. Accordingly, this Court hereby orders CBS, Inc., to provide the trustee with an accounting of the royalties received and any advances recouped therefrom.

NOTES

1. In *In re Prize Frize, Inc.*, 32 F.3d 426 (9th Cir. 1994), the Ninth Circuit held that license fees (the contract provided for both fixed payments and percentage royalties) paid for the use of technology, patents and proprietary rights are "royalties" within the meaning of Section 365(n)(2)(b), so that if the licensee elected to retain the licensed rights, the payments would have to continue and the licensee would have to forgo any potential right of set-off.

2. What happens when the bankrupt is the licensee? Personal services contracts are not assignable without the consent of the party to whom the services are to be rendered. Thus, in *Catapult Entertainment, Inc. v. Perlman (In re Catapult Entertainment, Inc.)*, 165 F.3d 747 (9th Cir.), *cert denied*, 120 S.Ct. 369, 68 USLW 3263 (1999), a licensee debtor could not assume a license after entering bankruptcy reorganization. Since many corporations are organized in Delaware, and since a corporation may file for bankruptcy either in the state in which its place of business is located or in its state of incorporation, many bankruptcies are filed in Delaware. *In re Access Beyond Technologies*, 237 B.R. 32 (Bankr. D. Del. 1999) has reached the same conclusion as *Catapult*. However, the First Circuit has taken the opposite view. *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir.), *cert denied*, 521 U.S. 1120 (1997). See Evan M. Jones, "Catapult to Oblivion:

Recent Court Decisions Threaten Ability of Bankruptcy Debtors to Retain or Sell Intellectual Property Licenses,” *Ent. L. Rptr* vol. 21, no. 5, p. 4 (1999).

6.7.3 Protective Registration

In some deals, transactions are set up in the form of security interests. Until a few years ago, entertainment attorneys routinely filed UCC-1’s in the debtor’s home jurisdiction as they would in ordinary transactions. However, as the following case indicates, this proved to be insufficient. Where copyright interests are involved, the security interest must be filed in the Copyright Office. However, as the *Sherman* note (p. 519) indicates, advances are not loans, and need not be evidenced by a security document.

**In re Peregrine Entertainment, Ltd. 116 B.R. 174, 16 U.S.P.Q. 2d 1017
(U.S.D.C. C.D.Ca 1990)**

KOZINSKI, DISTRICT JUDGE

This appeal from a decision of the bankruptcy court raises an issue never before confronted by a federal court in a published opinion: Is a security interest in a copyright perfected by an appropriate filing with the United States Copyright Office or by a UCC-1 financing statement filed with the relevant secretary of state?

National Peregrine, Inc. (NPI) is a Chapter 11 debtor in possession whose principal assets are a library of copyrights, distribution rights, and licenses to approximately 145 films, and accounts receivable arising from the licensing of these films to various programmers. NPI claims to have an outright assignment of some of the copyrights; as for the others, NPI claims it has an exclusive license to distribute in a certain territory, or for a certain period of time.

In June 1985, Capitol Federal Savings and Loan Association of Denver (Cap Fed) extended to American National Enterprises, Inc., NPI’s predecessor by merger, a six million dollar line of credit secured by what is now NPI’s film library. Both the security agreement and the UCC-1 financing statements filed by Cap Fed describe the collateral as “[a] inventory consisting of films and all accounts, contract rights, chattel paper, general intangibles, instruments, equipment, and documents related to such inventory, now owned or hereafter acquired by the Debtor.” Although Cap Fed filed its UCC-1 financing statements in California, Colorado, and Utah, it did not record its security interest in the United States Copyright Office.

NPI filed a voluntary petition for bankruptcy on January 30, 1989. On April 6, 1989, NPI filed an amended complaint against Cap Fed, contending that the bank’s security interest in the copyrights to the films in NPI’s library and in the accounts receivable generated by their distribution were unperfected because Cap Fed failed to record its security interest with the Copyright Office. NPI claimed that, as a debtor in possession, it had a judicial lien on all assets in the bankruptcy estate, including the copyrights and receivables. Armed with this lien, it sought to avoid, recover, and preserve Cap Fed’s supposedly unperfected security interest for the benefit of the estate.

The parties filed cross-motions for partial summary judgment on the question of whether Cap Fed had a valid security interest in the NPI film library. The bankruptcy court held for Cap Fed. . . .

The Copyright Act provides that “[a]ny transfer of copyright ownership or other document pertaining to a copyright” may be recorded in the United States Copyright Office, 17 U.S.C. 205(a). . . .

It is clear from the preceding that an agreement granting a creditor a security interest in a copyright may be recorded in the Copyright Office. See G. Gilmore, *Security Interests in Personal Property* 17.3, at 545 (1965). Likewise, because a copyright entitles the holder to receive all income derived from the display of the creative work (see 17 U.S.C. 106), an agreement creating a security interest in the receivables generated by a copyright may also be recorded in the Copyright Office. Thus, Cap Fed’s security interest could have been recorded in the Copyright Office; the parties seem to agree on this much. The question is, does the UCC provide a parallel method of perfecting a security interest in a copyright? One can answer this question by reference to either federal or state law; both inquiries lead to the same conclusion.

Even in the absence of express language, federal regulation will preempt state law if it is so pervasive as to indicate that “Congress left no room for supplementary state regulation,” or if “the federal interest is so dominant that the federal system will be assumed to preclude enforcement of state laws on the same subject.” *Hillsborough County v. Automated Medical Laboratories, Inc.*, 471 U.S. 707, 713 (1985) (internal quotations omitted). Here, the comprehensive scope of the federal Copyright Act’s recording provisions, along with the unique federal interests they implicate, support the view that federal law preempts state methods of perfecting security interests in copyrights and related accounts receivable.

The federal copyright laws ensure “predictability and certainty of copyright ownership,” “promote national uniformity” and “avoid the practical difficulties of determining and enforcing an author’s rights under the differing laws and in the separate courts of the various States.” *Community for Creative Non-Violence v. Reid*, 109 S. Ct. 2155, 2177 (1989); H.R. Rep. No. 1476, 94th Cong., 2d Sess. 129 (1976). As discussed above, section 205(a) of the Copyright Act establishes a uniform method for recording security interests in copyrights. A secured creditor need only file in the Copyright Office in order to give “all persons constructive notice of the facts stated in the recorded document” (17 U.S.C. 205[c]). Likewise, an interested third party need only search the indices maintained by the Copyright Office to determine whether a particular copyright is encumbered. See *Northern Songs, Ltd. v. Distinguished Productions, Inc.*, 581 F. Supp. 638, 640–41 (S.D.N.Y. 1984); Circular 12, at 8035–4. . . .

A recording system works by virtue of the fact that interested parties have a specific place to look in order to discover with certainty whether a particular interest has been transferred or encumbered. To the extent there are competing recordation schemes, this lessens the utility of each; when records are scattered in several filing units, potential creditors must conduct several searches before they can be sure that the property is not encumbered. See *Danning v. Pacific Propeller, Inc. (In re Holiday Airlines Corp.)*, 620 F.2d 731 (9th Cir.), cert. denied, 449 U.S. 900 (1980); *Red Carpet Homes of Johnstown, Inc. v. Gerling (In re Knapp)*, 575 F.2d 341, 343 (2d Cir. 1978); UCC 9401, Official Comment para. 1. It is for that reason that parallel recordation schemes for the same types of property are scarce as hen’s teeth; the court is aware of no others, and the parties have cited none. No useful purposes would be served—indeed, much confusion would result—if creditors were permitted to perfect security interests by filing with either the Copyright Office or state offices. See G. Gilmore, *Security Inter-*

ests in Personal Property 17.3, at 545 (1965); see also *Nimmer on Copyright*, 10.05[A] at 10–44 (1989) (“a persuasive argument . . . can be made to the effect that by reasons of Sections 201(d)(1), 204(a), 205(c), and 205(d) of the current Act . . . Congress has preempted the field with respect to the form and recordation requirements applicable to copyright mortgages”).

If state methods of perfection were valid, a third party (such as a potential purchaser of the copyright) who wanted to learn of any encumbrances thereon would have to check not merely the indices of the U.S. Copyright Office but also the indices of any relevant secretary of state. Because copyrights are incorporeal—they have no fixed situs—a number of state authorities could be relevant. Thus, interested third parties could never be entirely sure that all relevant jurisdictions have been searched. This possibility, together with the expense and delay of conducting searches in a variety of jurisdictions, could hinder the purchase and sale of copyrights, frustrating Congress’s policy that copyrights be readily transferable in commerce.

Moreover, as discussed at greater length below, the Copyright Act establishes its own scheme for determining priority between conflicting transferees, one that differs in certain respects from that of Article Nine. Under Article Nine, priority between holders of conflicting security interests in intangibles is generally determined by who perfected his interest first (UCC 9312[5]). By contrast, section 205(d) of the Copyright Act provides: “As between two conflicting transfers, the one executed first prevails if it is recorded in the manner required to give constructive notice under subsection (c), within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer . . .” (17 U.S.C. 205[d]). Thus, unlike Article Nine, the Copyright Act permits the effect of recording with the Copyright Office to relate back as far as two months. . . .

Because the Copyright Act and Article Nine create different priority schemes, there will be occasions when different results will be reached, depending on which scheme was employed. The availability of filing under the UCC would thus undermine the priority scheme established by Congress with respect to copyrights. This type of direct interference with the operation of federal law weighs heavily in favor of preemption. See generally *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 109 S.Ct. 971 (1989).

The bankruptcy court below nevertheless concluded that security interests in copyrights could be perfected by filing either with the copyright office or with the secretary of state under the UCC, making a tongue-in-cheek analogy to the use of a belt and suspenders to hold up a pair of pants. According to the bankruptcy court, because either device is equally useful, one should be free to choose which one to wear. With all due respect, this court finds the analogy inapt. There is no legitimate reason why pants should be held up in only one particular manner: Individuals and public modesty are equally served by either device, or even by a safety pin or a piece of rope; all that really matters is that the job gets done. Registration schemes are different in that the way notice is given is precisely what matters. To the extent interested parties are confused as to which system is being employed, this increases the level of uncertainty and multiplies the risk of error, exposing creditors to the possibility that they might get caught with their pants down.

A recordation scheme best serves its purpose where interested parties can obtain notice of all encumbrances by referring to a single, precisely defined re-

cordation system. The availability of parallel state recordation systems that could put parties on constructive notice as to encumbrances on copyrights would surely interfere with the effectiveness of the federal recordation scheme. Given the virtual absence of dual recordation schemes in our legal system, Congress cannot be presumed to have contemplated such a result. The court therefore concludes that any state recordation system pertaining to interests in copyrights would be preempted by the Copyright Act.

The court therefore concludes that the Copyright Act provides for national registration and “specifies a place of filing different from that specified in [Article Nine] for filing of the security interest” (UCC 9302[3][a]). Recording in the U.S. Copyright Office, rather than filing a financing statement under Article Nine, is the proper method for perfecting a security interest in a copyright.

Effect of Failing to Record with the Copyright Office

Having concluded that Cap Fed should have, but did not, record its security interest with the Copyright Office, the court must next determine whether NPI as a debtor in possession can subordinate Cap Fed’s interest and recover it for the benefit of the bankruptcy estate. As a debtor in possession, NPI has nearly all of the powers of a bankruptcy trustee (see 11 U.S.C. 1107[a]), including the authority to set aside preferential or fraudulent transfers, as well as transfers otherwise voidable under applicable state or federal law. See 11 U.S.C. 544, 547, 548.

Particularly relevant is the “strong arm clause” of 11 U.S.C. 544(a)(1), which, in respect to personal property in the bankruptcy estate, gives the debtor in possession every right and power state law confers upon one who has acquired a lien by legal or equitable proceedings. If, under the applicable law, a judicial lien creditor would prevail over an adverse claimant, the debtor in possession prevails; if not, not. *Wind Power Systems, Inc. v. Cannon Financial Group, Inc.* (*In re Wind Power Systems, Inc.*), 841 F.2d 288, 293 (9th Cir. 1988); *Angeles Real Estate Co. v. Kerxton* (*In re Construction General Inc.*), 737 F.2d 416, 418 (4th Cir. 1984). A lien creditor generally takes priority over unperfected security interests in estate property because, under Article Nine, “an unperfected security interest is subordinate to the rights of . . . [a] person who becomes a lien creditor before the security interest is perfected” (UCC 9301[1][b]). But, as discussed previously, the UCC does not apply to the extent a federal statute “governs the rights of parties to and third parties affected by transactions in particular types of property” (UCC 9104). Section 205(d) of the Copyright Act is such a statute, establishing a priority scheme between conflicting transfers of interests in a copyright.

As between two conflicting transfers, the one executed first prevails if it is recorded, in the manner required to give constructive notice under subsection (c), within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer. Otherwise, the later transfer prevails if recorded first in such manner, and if taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties, and without notice of the earlier transfer (17 U.S.C. 205[d]). For the reasons discussed above, the federal priority scheme preempts the state priority scheme.

Section 205(d) does not expressly address the rights of lien creditors, speaking only in terms of competing transfers of copyright interests. To determine whether

NPI, as a hypothetical lien creditor, may avoid Cap Fed's unperfected security interest, the court must therefore consider whether a judicial lien is a transfer as that term is used in the Copyright Act.

As noted above, the Copyright Act recognizes transfers of copyright ownership "in whole or in part by any means of conveyance or by operation of law" (17 U.S.C. 201[d][1]). Transfer is defined broadly to include any "assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright . . . whether or not it is limited in time or place of effect" (17 U.S.C. 101). A judicial lien creditor is a creditor who has obtained a lien "by judgment, levy, sequestration, or other legal or equitable process or proceeding" (11 U.S.C. 101[32]). Such a creditor typically has the power to seize and sell property held by the debtor at the time of the creation of the lien in order to satisfy the judgment or, in the case of general intangibles such as copyrights, to collect the revenues generated by the intangible as they come due. See, e.g., Cal. Civ. P. Code 701.510, 701.520, 701.640. Thus, while the creation of a lien on a copyright may not give a creditor an immediate right to control the copyright, it amounts to a sufficient transfer of rights to come within the broad definition of transfer under the Copyright Act. See *Phoenix Bond & Indemnity Co. v. Shamblin (In re Shamblin)*, 890 F.2d 123, 127 n.7 (9th Cir. 1989) (under the Bankruptcy Code, "[t]his court has consistently treated the creation of liens on the debtor's property as a transfer").

Cap Fed contends that, in order to prevail under 17 U.S.C. 205(d), NPI must have the status of a bona fide purchaser, rather than that of a judicial lien creditor. See *Pistole v. Mellor (In re Mellor)*, 734 F.2d 1396, 1401 (9th Cir. 1984) (judicial lien creditor does not have the same rights as a bona fide purchaser); cf. 11 U.S.C. 544(a)(3) (for real estate in the bankruptcy estate, debtor in possession has the rights of a bona fide purchaser). Cap Fed, in essence, is arguing that the term transfers. For the reasons expressed above, the court rejects this argument. The Copyright Act's definition of transfer is very broad and specifically includes transfers by operation of law (17 U.S.C. 201 [d][1]). The term is broad enough to encompass not merely purchasers, but lien creditors as well. NPI therefore is entitled to priority if it meets the statutory good faith, notice, consideration, and recording requirements of section 205(a). As the hypothetical lien creditor, NPI is deemed to have taken in good faith and without notice. See 11 U.S.C. 544(a). The only remaining issues are whether NPI could have recorded its interest in the Copyright Office and whether it obtained its lien for valuable consideration.

In order to obtain a lien on a particular piece of property, a creditor who has received a money judgment in the form of a writ of execution must prepare a notice of levy that specifically identifies the property to be encumbered and the consequences of that action. See Cal. Civ. P. Code 699.540. If such a notice identifies a federal copy-right or the receivables generated by such a copy-right, it and the underlying writ of execution, constitute "document[s] pertaining to a copyright" and therefore, are capable of recordation in the Copyright Office. See 17 U.S.C. 205(a); Compendium of Copyright Office Practices II paras. 1602–1603 (identifying which documents the Copyright Office will accept for filing). Because these documents could be recorded in the Copyright Office, NPI as debtor in possession will be deemed to have done so.

Finally, contrary to Cap Fed's assertion, a trustee or debtor in possession is deemed to have given valuable consideration for its judicial lien. Section 544(a)(1) provides: "The trustee [or debtor in possession] shall have, as of the commence-

ment of the case . . . the rights and powers of, or may avoid any transfer of property of the debtor or any obligation incurred by the debtor that is avoidable by . . . a creditor that extends credit to the debtor at the time of the commencement of the case, and that obtains, at such time and with respect to such credit, a judicial lien on all property on which a creditor on a simple contract could have obtained such a judicial lien . . .” (11 U.S.C. 544[a][1]). The act of extending credit, of course, constitutes the giving of valuable consideration. See *First Maryland Leasecorp v. M/V Golden Egret*, 764 F.2d 749, 753 (11th Cir. 1985); *United States v. Cahall Bros.*, 674 F. 2d 578, 581 (6th Cir. 1982). In addition, the trustee’s lien—like that of any other judgment creditor—is deemed to be in exchange for the claim that formed the basis of the underlying judgment, a claim that is extinguished by the entry of the judgment.

Because NPI meets all of the requirements for subsequent transferees to prevail under 17 U.S.C. 205(d)—a transferee who took in good faith, for valuable consideration and without notice of the earlier transfer—Cap Fed’s unperfected security interest in NPI’s copyrights and the receivables they generated is trumped by NPI’s hypothetical judicial lien. NPI may therefore avoid Cap Fed’s interest and preserve it for the benefit of the bankruptcy estate.

Conclusion

The judgment of the bankruptcy court is reversed. The case is ordered remanded for a determination of which movies in NPI’s library are the subject of valid copyrights. The court shall then determine the status of Cap Fed’s security interest in the movies and the debtor’s other property. To the extent that interest is unperfected, the court shall permit NPI to exercise its avoidance powers under the Bankruptcy Code.

It is so ordered.

NOTES

1. In an age of inflated entertainment costs, outside financing of projects has become both more commonplace and large-scale. Inherent and vital to financing is the ability to provide security for the loans, and among the most obvious and ultimately valuable assets one can secure in an entertainment project is a copyright covering the work being financed, generally accomplished through floating liens on future copyrights. Prior to the district court’s decision in *Peregrine*, there was widespread belief that a properly filed UCC financing statement would provide a security interest in a copyright. It remains unresolved how one would perfect a security interest in an unregistered or future copyright. *In re Avalon Software, Inc.*, 209 B.R. 517 (Bankr. D. Ariz. 1997) holds that a security interest in a copyrightable work is not perfected unless both the work and the UCC-1 are filed with the Copyright Office. This includes copyrightable modifications to the original program. However, stating that “the *Peregrine* court’s analysis only works if the copyright was registered,” *In re World Auxiliary Power Co.*, 244 B.R. 149 (Bankr. N.D. Cal. 1999) concludes that where no copyright registration has been filed, a security interest is perfected when the UCC-1 is filed with the California Secretary of State. For safety’s sake, lenders must require that they be notified when a work subject to an “after acquired interest” clause has been created so that a further copyright registration and security interests can be filed. Moreover, it should be noted that because of the traditionally slow processing time of the U.S. Copyright Office, coupled with the fact that filings are made under title and not by debtor, searches for prior security interests both difficult and uncertain.

2. There are three distinct categories of collateral that could be secured by the borrower

in a film financing transaction: (1) the contract rights and accounts receivable related to the motion picture, which would include amounts payable for pre-sales and amounts paid via distribution or syndication agreements; (2) the actual physical film (the negatives, prints, and soundtrack that make up the motion picture); and (3) the copyright in the film. Each of the three distinct classes of collateral is secured in a different way. The contract rights and accounts receivable, as well as the physical film, are generally secured by the borrower through provisions of the UCC as adopted and modified by the applicable state. As seen in the *Peregrine* case, perfection of a security interest in the copyright is not covered by UCC Article 9 but, rather, the 1976 Copyright Act. A lender who seeks to obtain security interest in the copyright to the motion picture it is financing will generally require the borrower to execute a mortgage of copyright, which would be filed with the Copyright Office and released upon full repayment of the loan. See Peter A. Levitan, “A Primer of Selected Copyright Concerns in Motion Picture Practice,” 1990 *Entertainment Publishing and the Arts Handbook*, at 3.

3. In *Septembertide Publishing B.V. v. Stein and Day, Inc.*, 884 F.2d 675 (2d Cir. 1989), the issue was whether a commercial printer (which had a security agreement with the publisher) or an author (who did *not* have a security agreement) was entitled to two-thirds of an advance due from the licensee of the paperback rights to a novel written by the author, when the publisher went bankrupt. Holding that the author was an intended third-party beneficiary of the agreement between the publisher and the printing house, the Court found (on this basis as well as on custom and usage in the industry) that the author was therefore entitled to two-thirds of the advance payable by the licensee of the paperback edition, the share prescribed in the agreement between the author and the now-bankrupt publisher.

4. In *In re Sherman*, 627 F.2d 594 (2d Cir. 1980), an insurance company was permitted to recoup a bankrupt agent’s advance commissions from commissions actually earned subsequent to filing of the petition. These were advances, not loans. No “security interest” was involved, and therefore the company was not required to perfect its interest under UCC.

5. An assignment of the right to receive royalties from a copyrighted work does not constitute a “transfer of copyright ownership” within the meaning of 107 of the Copyright Act of 1976; such assignments are not “other documents pertaining to copyright” (17 U.S.C. 205). Therefore, such an assignment need not be recorded in the Copyright Office, and a subsequent IRS lien will not take precedence over the rights of the assignee. *BMI v. Hirsch*, 104 F.3d 1163 (9th Cir. 1997).

6.8 ARBITRATION

It may be a good idea to consider the desirability of attempting to negotiate arbitration clauses when representing entry-level recording artists, songwriters and other creative personnel. However, there is no clear answer; as with so many other contemporary issues, it depends.

While it would probably be impossible to develop an empirical method of proving it, the level of bitterness reflected in the cases in this chapter should be sufficient to convince even the most casual observer that litigation involving creative talents is extremely hazardous to ongoing business relationships and frequently impacts creativity negatively. At the same time, companies do not relish the negative implications which attend publicity surrounding litigation with persons under contract to them. Because of the enormous costs in time, money, and psychological damage that litigation customarily entails, transactional attorneys frequently seek into include arbitration clauses in their agreements. Quite often, a contractual arbitration clause will look like this:

Any dispute seeking the interpretation and/or enforcement of this agreement shall be resolved by arbitration [by a single arbitrator—or—by a panel of three arbitrators, one of such arbitrators to be chosen by each party and the two thus chosen to select the third arbitrator] in [city] pursuant to the Commercial Arbitration Rules of the American Arbitration Association. The award rendered pursuant to such arbitration may be entered as a judgment in any court of competent jurisdiction.

In addition, parties to any existing dispute may commence an arbitration under the Rules of the American Arbitration Association by filing at any regional office of the Association, three copies of a written submission to arbitrate under these rules, signed by the parties. It must contain a statement of the matter in dispute, the amount involved (if any), the remedies sought, and the hearing local requested, together with the appropriate filing fee as provided in the schedule of administrative fees.

In addition, state statutes (e.g., Article 75 of the New York Civil Practice Law & Rules, Title 9 (1280 et seq.) of the California Code of Civil Procedure) and a federal statute (Federal Arbitration Act, 9 U.S.C.A. 1 et seq.) provide detailed legislative schemes which may be utilized if parties decide to forgo resort to the American Arbitration Association. Moreover, there are commercial operations such as Judicial Arbitration & Mediation Service (JAMS), which provide retired judges and experienced attorneys as arbitrators.

Arbitration is strongly favored as a matter of public policy, *Cohen v. Wedbush, Noble, Cooke, Inc.*, 841 F.2d 282 (9th Cir. 1989), and any doubts concerning the scope of an arbitration clause are to be resolved in favor of arbitration. *French v. Merrill, Lynch, Pierce, Fenner & Smith Co.* 784 F.2d 902 (9th Cir. 1989). Thus, in *Graham v. Scissor-Tail, Inc.* 28 Cal.3d 807, 623 P.2d 165 (1981), promoter Bill Graham was required to arbitrate a dispute under a standard American Federation of Musicians date agreement; however, he did not have to accept an arbitrator selected solely by the union, which the court found unconscionable. (In *Chimes v. Oritami Motor Hotel, Inc.*, 195 N.J. Super. 435, 480 A.2d 218 (N.J.App. 1984), the same form arbitration clause was held unenforceable against the promoter, a result also reached in *Taylor v. Nelson*, 615 F. Supp. 533 (W.D.Va. 1985), *rev'd on other grounds*, 788 F.2d 220 (1986). The AF of M has since abandoned its former policy in favor of a more impartial format.) While ideally arbitration provides a quick, easy, inexpensive and definitive alternative to conventional litigation, it is well to remember that “[a]rbitrators do not have to follow the law or the rules of evidence.” W. F. Rytersdaam, *Alternative Dispute Resolution*, *Cal. Bar J.* March 2000, p. 10. Moreover, experience with three-member panels indicates that because of the difficulty of meshing the schedules of the three members, the schedules of the attorneys, clients and non-party witnesses as well as the frequently disjointed nature of such proceedings, such arbitrations often take longer than conventional litigation and are very expensive and produce awards that are not models of clarity. Bear in mind that an arbitration proceeding concludes with the entry of an award, and resort must then be made to the appropriate judicial forum for the confirmation, vacatur or modification of said award.

An arbitrator has very broad powers during the course of the hearings except that with respect to pre-hearing discovery, pursuant to Rule 10 of the Commercial Arbitration Rules of the American Arbitration Association, the Arbitrator may establish (i) the extent of and schedule for the production of documents and other

information, (ii) the identification of any witnesses to be called, and (iii) a schedule for further hearings to resolve the dispute. Generally, under state statutes and case law, there are no depositions except under extraordinary circumstances, and then only by court order. Under Section 43 of the same Rules, the arbitrator may grant “any remedy or relief . . . deem[ed] just and equitable and within the scope of the agreement of the parties,” including, but not limited to, specific performance of contracts. A judgment entered upon an arbitration award will not be set aside by motion or on appeal, except upon jurisdictional grounds or by reason of the corruption of the arbitrator(s), or unless the award is totally irrational. Moreover, it must be remembered that American Arbitration Association awards do not set forth reasons for decision. This, plus the lack of a transcript (which is commonplace), prevents meaningful court review, because while “an award will be vacated if it is in ‘manifest disregard of the law’ . . . [t]his standard requires [that t]he error must have been obvious and capable of being readily and instantly perceived by the average person qualified to serve as an arbitrator.” *Ripa v. Cathy Parker Management, Inc.*, 1998 WL 241621 (SDNY 1998).

The most extensive use of arbitration as a procedure to determine disputes in the entertainment industries is through collective bargaining agreements entered into between unions acting on behalf of creative personnel and the companies which utilize their services, e.g., actors (represented by the Screen Actors Guild), screenwriters (Writers Guild of America), directors (Directors Guild of America, which also represents production managers and technical coordinators in motion pictures), vocalists (American Federation of Television and Radio Artists). Actors Equity Association acts on behalf of performers, stage managers, and assistant stage managers for live theatrical productions. Both sides to these agreements recognize the need for expeditious resolution of disputes, with binding effect, available on short notice, so that films, television, Broadway productions and other entertainment presentations may move forward without delay.

In *Robers v. Atlantic Recording Corporation*, 892 F. Supp. 583 (S.D.N.Y. 1995), a motion for an injunction to prevent the release of the original cast album of “Smoky Joe’s Cafe” was denied, and a motion to compel arbitration was granted. An arranger of show music claimed that his contract with the production company did not include the right to use his arrangements for the album, and that such use therefore constituted copyright infringement. Since the issue involved the interpretation of a substantive provision of the agreement, and did not involve an issue of public policy, the court held that it was to be determined by arbitration, citing *Exercycle Corp. v. Maratta*, 9N.Y.2d 329, 334 (1961).

And in *Spinello v. Amblin Entertainment*, 29 Cal. App. 4th 1390, 34 Cal. Rptr 695 (2d Dist. 1994), an arbitration clause in a script submission agreement was upheld, as the Court of Appeals reversed a lower court holding that the script submission agreement was a contract of adhesion (see the *Art Buchwald* decision at p. 465) and that therefore such clause was substantively and procedurally unconscionable. The agreement was not one of adhesion, the Court of Appeals ruled. The plaintiff could have negotiated its terms, but failed to do so, and the plaintiff could have gone elsewhere (and, indeed, had submitted his script to 70 other producers).

NOTE

See Robert A. Holtzman, “Arbitrary Decisions,” *Los Angeles Lawyer* October 1996, p. 50.

Part Two

Chapter 7

LITERARY PUBLISHING

7.1 INTRODUCTION

We begin our analysis of the individual entertainment industries with the original. Long before films, radio, television, and other technologies, the printed word was a medium of entertainment. A tremendous proportion of the raw material of the other media is derived from print sources. In addition, the recent history of the literary publishing industry bears many similarities to the recent histories of the other industries we survey in the remainder of this book.

Writers such as Erle Stanley Gardner, Louis L'Amour, Agatha Christie, Georges Simenon, P. G. Wodehouse, Catharine Cookson and Barbara Cartland have written hundreds of books, with aggregate sales in the hundreds of millions. The novels of such mass-market-oriented authors as John Grisham (who received a reported \$6 million for the movie rights to his first novel, *A Time To Kill*), Stephen King, Judith Krantz, James Clavell, Jackie Collins, and Danielle Steel, as well as the works of more "serious" writers such as Hemingway, Fitzgerald, and Faulkner, have become the stuff of movie and television fare.

Whereas early American writers such as James Fenimore Cooper and Washington Irving had to pay to publish their works, by the nineteenth century book publishing had emerged as an American business. The roles of writer and publisher diverged, and patterns emerged which have spread to the other industries, molded and adapted in each industry to suit its own needs and customs. Ironically, with the advent of the Internet and the ease of self-publishing, those roles may merge again in the future. Our initial focus, therefore, is on trends which have developed in literary publishing.

7.2 THE BUSINESS OF LITERARY PUBLISHING

Publishing houses began as family businesses. Ownership passed from generation to generation, and an intimate relationship between the company ownership and its group of authors was the norm. While many small general interest and spe-

cialty publishers survive, many of the larger publishing houses have been absorbed by multinational conglomerates, with potential negative consequences for authors in two respects: first, because these enterprises are publicly held and must answer to stockholders and public markets generally, there is a greater hesitancy to gamble on moderate sellers or unknowns; and second, again because of the need to generate steady, sizeable profits, there is less one-on-one involvement between editors and authors than prevailed in the past. “These days, an editor’s sharp pencil can be a luxury in the consolidating industry of large trade publishing houses, which through the 1990s have undergone a significant contraction in their editing staffs.” Doreen Carvajal, “The More the Books, the Fewer the Editors,” *New York Times*, June 29, 1998, p. B1.

Today there is an ever-greater demand for the “big” book by a name author. Recent mega-deals include: a two-book deal between Michael Crichton and HarperCollins for a \$45 million advance, a similar deal between Tom Clancy and Penguin Putnam, and a five-book, \$64 million deal between Mary Higgins Clark and Simon & Schuster. However, overall sales remained at \$24 billion in 1999 (up from \$23 billion in 1998) (Jonathan Bing, “Book Biz Gets Star Struck,” *Daily Variety*, Feb. 26, 2000, p. 1).

Book publishing is big business. Only television commands more total revenue than print publishing, an ascendancy gained only as recently as the early 1980s. Let us examine some of the “players.”

Expansion and consolidation characterize the publishing side of the business as well as the retail side. As of mid-1998, the leading publishers by annual sales were:

Simon & Schuster	\$2.3 billion
Thomson Corp.	\$1.5 billion
McGraw-Hill	\$1.3 billion
Random House	\$1.3 billion
Pearson	\$1.2 billion
Time Warner	\$1.1 billion
Harcourt General	\$1.1 billion
Bertelsmann	\$1.0 billion

Since that time, Bertelsmann AG, the world’s third largest entertainment conglomerate (after AOL Time Warner Inc. and The Walt Disney Company), has acquired Random House, which gives Bertelsmann (which also owns Bantam Doubleday Dell) the largest single share of the U.S. literary publishing market. Random House imprints include Random House, Alfred A. Knopf, Ballantine, Crown, Fawcett, Fodor’s, and Modern Library. Pearson Plc, a UK conglomerate (owner of the *Financial Times*, paperback giant Penguin, and educational publisher Addison Wesley Longman, as well as 50% owner of *The Economist*) acquired Simon & Schuster (except for its consumer publishing business) from Viacom Inc. Even with its reduced scope, Simon & Schuster remains the second largest American trade publisher. Time Warner Inc. publishes such magazines as *Time*, *Life*, *Fortune*, *Sports Illustrated*, and *Money*, and owns leading paperback house Warner Books, direct mail operations Time-Life Books and Records and Book-of-the-Month Club, and such traditional publishers as Little, Brown & Co.

Each of these conglomerates operates in many different areas of the entertainment industries, and it is therefore no accident that the conglomerates are also involved in literary publishing. For example, in addition to the publishing interests described above, Bertelsmann owns worldwide record operations through its BMG and Ariola Records groups. Australia-based News Corp. (whose chairman, Rupert Murdoch, became a U.S. citizen in order to qualify to own television stations) controls major newspapers on three continents, as well as 20th Century Fox, Fox Broadcasting, and HarperCollins (formerly Harper & Row and U.K. publisher Collins). Holtzbrinck, a German publishing house, owns U.S. publishers Henry Holt & Co. and Farrar Straus Giroux. The importance of literary publishing to the conglomerates varies considerably. Bertelsmann derived 37.8% of its \$14 billion annual worldwide revenues in 1998 from this source, while AOL Time Warner, Inc. derived only 5.4% of its annual revenues and Disney only 0.7% from literary publishing.

Part of the reason why entertainment conglomerates are attracted to literary publishing is the cross-marketing potential of tie-ins between books and radio, television, and films, as illustrated by such phenomena as Oprah Winfrey's book club; talkshow host Rush Limbaugh's leading of the best-seller lists in 1992 and 1993; by sales of such volumes as a cookbook by Oprah Winfrey's cook (a 400,000-copy first printing); the Bubba Gump Shrimp Co. Cookbook (a 700,000-copy first printing, the largest ever for a hardcover cookbook), which followed the phenomenal box-office success of "Forrest Gump"; and the trade paperback edition of "Schindler's List," which passed the 1,000,000 sales mark in 1994 after the success of the Steven Spielberg film (Daisy Maryles, "Embraced by the List," *Publishers Weekly*, January 2, 1995, p. 50).

The increasing internationalization of the entertainment industries, which is discussed throughout this book, evidenced in the literary publishing industry by the ownership described above, is further underscored by the presence in recent years in top U.S. positions of such figures as Alberto Vitale, an Italian, chief executive of Random House, Inc.; Sonny Mehta, an Indian, head of Alfred A. Knopf; and Tina Brown, an Englishwoman, editor of the *New Yorker* (and subsequently the new magazine, *Talk*).

However, internationalization does not stop with ownership by foreign conglomerates or the appointment of foreign nationals to lead U.S. publishing houses. Foreign revenues have become increasingly important to American publishers: some 60% to 70% of U.S. publishers' revenues from sources other than U.S. hard copy sales comes from foreign subpublishing (Jennifer Nix, "A Broad Book Biz," *Daily Variety*, June 23, 1998, p. 24).

As a result of the trends described above, the 50 largest publishing houses now account for approximately 75 percent of total U.S. book sales. Since it is estimated that there are over 10,000 U.S. publishing companies, that leaves the other 9,950 to scramble for the remaining 25 percent. About 100 publishing companies open for business each year, but only about one-third of these remain active after a few years. The rest are absorbed by larger publishers or go under.

Expansion, concentration, and cross-ownership in publishing have had their counterpart in book retailing as well. The small mom and pop bookshop faces increasing competition from large chains. It is estimated that Barnes & Noble (which includes B. Dalton/Pickwick), Borders-Waldenbooks (a subsidiary of mass-market retailer K Mart, with over 1,000 stores), and Crown Books now account for approximately 50 percent of U.S. retail book sales. Because of the steady

growth of Barnes & Noble and Borders-Waldenbooks, third-largest chain Crown Books was forced to seek Chapter 11 protection. Meanwhile, the dominance of the big chains has in turn, provoked an anti-trust suit from the American Booksellers Association, a trade organization of some 4,500 independent bookshops (down from 5100 in 1991.) (*ABA v. Barnes & Noble and Borders et al.*, U. S. District Court, District of Northern California). The trial date is scheduled for April 2001. From 1992 to 1998, the chain store share of the book market increased from 22% to 26%, while the independent share declined from 33% to 19% (*Los Angeles Times*, April 27, 1998, p. D2).

Online hard-copy distribution also poses a threat to traditional bookstores. Amazon.com, losing money but growing, offers access to millions of titles. Barnes & Noble (bn.com) is waging a battle with Amazon.com for pre-eminence in on-line publishing and Borders Group is a distant third.

Online publishing, downloading of books directly to the consumer and e-books are still very new, but many see this as a revolution in literary publishing. Some question whether paper books will be a thing of the past as soon as 2009, the year Microsoft has predicted that the majority of books will be available in e-book form. In 2000, Microsoft entered into agreements with Barnesandnoble.com, Random House and Simon & Schuster to make popular titles available free of charge on Pocket PCs employing Microsoft's Reader software, and Time Warner's Ipublish.com was announced as the first dedicated Web-publishing venture by a U.S. book publisher.

As a possible precursor of things to come, Stephen King's novella "Riding The Bullet" generated enormous excitement in its first two days of literary life as an e-book. Simon & Schuster reported 400,000 orders in the first 24 hours after the work became available on retail websites, although customers experienced delays and inability to download due to software problems. Orders ultimately exceeded 500,000 copies. Sales of digital reading devices were expected to exceed 500,000 copies by the end of 2000. King generated more controversy in the publishing world by posting sequential serial chapters of "The Plant" on-line on a "pay as you go" subscription basis. When King interrupted the installments (or put "The Plant" on hiatus and "furlled its leaves" as he called it) in December 2000, his net profit (direct to him) was \$463,832.27.

These trends have ominous implications for traditional literary publishers: Authors whose names have "marquee" value may decide that their works can be marketed without the assistance of old-line publishers, and they may elect to forego advances in favor of potentially greater "back-end" earnings. For those who are less famous and for traditional publishers, there will be additional pressure to spend marketing dollars in order to attract attention in an increasingly hits-driven business.

7.3 THE SCOPE OF LITERARY PUBLISHING CONTRACTS

The basic literary work may be only the beginning of the process by which a "story" is created and sold through numerous media. Serializations may occur before and after publication, and "books on tape" have grown increasingly important. A book may be turned into a movie, the movie may become a play or a musical, and the movie may provide the push for a paperback tied to the film (with the title of the book sometimes being changed to the title of the movie).

The book which has become a movie may then be transformed into a television series (for example, *M*A*S*H*), the movie into a television series, the book into a sequel, the sequel into a movie, and on and on. The first contract between the publisher and author is crucial in determining who has control over the process. Several other contracts are likely to be entered into before the creative work reaches its ultimate saturation of all available markets. In addition to the contract between the publisher and author, there are likely to be contracts for paperback, foreign, and merchandise licensing and for motion picture, television, and video/audiocassette options. There is usually also a contract between the author and a literary agent. The publisher/author contract is the tablesetter that may greatly determine—or, indeed, foreclose—what can or cannot be included in later agreements. This contract is discussed in detail in Section 7.3. However, in light of the fact that sales of hardback copies are usually the “tail” of an increasingly diffuse “dog,” it is important to note three important areas which can be of enormous importance to an author.

7.3.1 Paperback Licensing

On the assumption that the prospective book has possibilities for both hardcover and paperback markets, the hardback publisher generally obtains paperback exploitation rights in the original publisher-author contract. In the usual scenario, the publisher-author contract allows the original publisher to sublicense the paperback edition to another company. In very rare cases, the hardcover publisher will obtain the paperback rights but there will be restrictions in the contract limiting the range of companies to whom the paperback rights can be licensed. For the most established writers, it is not unusual to arrange at the outset for the paperback publishing rights to be handled by a different publisher than the publisher of the hardcover edition.

7.3.2 Foreign Licensing

While the publisher’s first draft agreement will almost always include foreign publication rights (at far lower royalty rates than those which apply to domestic sales) authors frequently dispose of foreign publication rights separately from rights for the U.S. and Canada. A foreign license may involve translating the work into another language. One question to be resolved is the extent to which the original publisher (or the author) has an opportunity to review the quality and faithfulness of the translation. Unless the work is a “literary” work, it is very rare for the author to secure approval over translations. The precise limits of the territory within which the foreign translation may be distributed must be included. In this connection, it should be remembered that country-by-country licenses are ineffective in the European Union, since the EC Treaty forbids territorial restrictions within the 17 countries now belonging to the Union. The precise purposes for which the license is granted must be defined. The foreign licensee will often be required to put up advances and/or guarantees “in front.” This is of major importance, since audits are expensive and a U.S. licensee may not wish to undertake these costs if they can be avoided. Prompt repatriation of royalties is an issue in this area; in order to control inflation, foreign countries sometimes impose so-called blocked currency restrictions, which prevent or delay local licensees from remitting dollars to the U.S. In such cases, the value of

royalties affected by such restrictions may diminish and even disappear before the blockage is lifted.

7.3.3 Merchandise Licensing

Literary works at times attain such popularity that items in clothing, toys, posters, and other merchandise may have substantial commercial possibilities. *Geisel v. Poynter Products* (see 7.4, below) emphasizes what happens when the ownership of a creative product is not properly protected. The facts of the case also illustrate the marketing possibilities for characters in a literary work, sometimes several years after the original work featuring the characters first appears. The merchandise licensing agreement must define precisely for what purposes the license is granted in terms of what product can be produced, what degree of quality control exists, and how long the license runs. Restrictions on territorial areas and types of marketing should also be negotiated.

7.3.4 Motion Picture/Television Licensing

Here, too, the literary publisher will seek to include the rights in its basic agreement with the author. However, quite a few films have been based upon novels acquired prior to their publication. Potentially “hot” properties are often circulated in pre-publication galley proofs or even in manuscript form. If an author can retain film/television rights, he/she can potentially realize far more income than would be the case if the deal went through the literary publisher. On the other hand, the imprimatur of a major publisher may induce a higher level of interest among film and television producers than might otherwise be the case.

Typically, the prospective producer’s first step is to obtain an option on the work, pending a decision as to whether the work is translatable to film and whether the appropriate financing and talent can be obtained. In the normal case, an option agreement will provide for an initial option period of one year, with one or two potential renewal periods before the potential licensee must ultimately exercise the option or let it drop. The option agreement will typically provide for a set fee for the option(s) with a further payment when the option is exercised, which may be limited to a fixed dollar amount or may include a fee plus a percentage of the proceeds (usually, net profits). Sometimes the option payments are advances against the ultimate purchase price; in other situations, they are not. The dollars will vary greatly depending upon the stature of the book (sometimes, the stature of the author) and whether the film is made originally for theatrical release or is made strictly for television.

The option agreement should define not only the length and cost of the option but also the terms of the ultimate agreement in the event the option is exercised. The option contract, as well as the license which will come into existence if the option is exercised, must define the creative control retained by publisher or author, the time limits on the license as well as an outside date by which the film must be made or the rights relinquished, the precise scope of the license (e.g., does the producer get prequel, sequel and spin-off rights, which would permit the producer to make a series of films, or does the license cover only one picture?), and, of course, the royalty or fee arrangements.

Frequently, the ability of the prospective licensee to exercise its options will

be conditioned on the occurrence of one or more specific events, e.g., the preparation of a first draft of the script, the signing of a name director or actor, etc.

NOTE

1. In one instance, a producer/director team represented by one of the authors attempted to acquire the rights to a book which had been an international bestseller more than ten years earlier. When the author's agent was contacted, the team discovered that the rights had been purchased years earlier by a well-known Broadway producer (since deceased). When the producer was contacted, he informed the author that he had no intention of producing a film from the book but that he would not consider relinquishing the rights.

7.3.5 Other Media Licensing

Literary publishing agreements have for many years included catchall "new technologies" clauses. Until a few years ago, little attention was paid to these. However, as technologies evolve, such clauses receive greater attention. Some print publishers find it advantageous to put their works directly into other media forms, such as audiobooks or videocassettes. The basic publisher-author agreement should cover this possibility (see Section 7.3); the publisher may then find itself licensing the rights for an audiobook or videocassette to another company if the publisher itself does not have such capacity. The original publisher will be concerned over the timing of the release of the audiobook version, so that the "buzz" attending the printed version of the book will have the fullest possible impact on sales of the audiobook version. The publisher will also be concerned about the quality of the audiobook version and the conformity between the advertising and marketing materials utilized in connection with the printed audiobook versions.

NOTE

See Robert Kolker, "An Inside Look at Audio-Book Agreements," 10 *Entertainment Law & Finance* (October 1994).

7.3.6 Author-Literary Agent

Authors who write for the mass market usually require a literary agent to represent them. The agent in this role assumes somewhat different responsibilities than agents or managers in other entertainment fields, but there are also similarities. The general legal requirements of agents, including those of a fiduciary relationship to the client, are discussed at length in Chapter 1 (see Section 1.3). The contract between the author and the literary agent should specify how long the contract is to run, the different types of income on which the agent's fees will be based, and, in rare cases, representations by the agent as to what can be done for the author and the ability of the agent to act on the author's behalf. In general, the agent promises good-faith efforts to market the author. The reality is that a young author's big opportunity may lie in obtaining the services of a reputable and well-placed literary agent.

7.4 PUBLISHER-AUTHOR CONTRACT IN DETAIL

Because of the vast variety of books published for today's markets, no single form could ever be appropriate for all publisher-author contracts. A law school casebook, for example, has little potential for later adaptation to the silver screen. A grant of rights to the publisher as to motion picture rights, therefore, is not an item likely to consume a great deal of negotiating time. When the prospective book is a novel by a well-known author, however, the ability to license the work for motion pictures and television may be a central issue. Thus, the following comments may or may not apply to any particular publisher-author contract. The points discussed are those that must be considered when approaching such contracts, with an initial decision to be made as to their applicability.

7.4.1 Rights Granted and Assigned

The rights granted by the author to the publisher run the gamut and must be carefully negotiated. The publisher is likely to ask for exclusive, worldwide, perpetual rights in a work, including the right to issue (or sublicense others to issue) higher-quality (and higher-priced) trade paperback editions; book clubs; reprint licensing; mass-market paperback reprints; selections for anthologies, textbooks, abridgements, and condensations; periodical and broadcast selections; digests; transcriptions; special editions for the handicapped, the theatre, motion pictures, and television; radio; educational pictures, merchandising; foreign language; export; and "all others." The author will want to limit such grants and, at a minimum, retain royalty rights in all such possible uses of the work. An author should not assume that the publisher is entitled to every one of these rights; to the contrary, the author (depending, in each instance, upon relative bargaining strength) should consider each item separately negotiable.

Audiobook and online distribution rights are of increasing importance, and should not be regarded as incidental to the main purpose of the agreement. (The question of whether new media are covered by grants of rights in old agreements is discussed in Sec. 4.2.1.)

7.4.2 Delivery of Satisfactory Manuscript

The manuscript provisions define who has ultimate creative control over the work, the delivery date for the manuscript (and the consequences for late delivery), the rights and duties of the publisher to edit and comment, and what will constitute delivery. Typically, the agreement requires that the manuscript be "satisfactory in form and content" to the publisher. Such clauses have been the basis for substantial litigation discussed in Section 7.4, indicating that where such a clause appears (and provided the publisher has provided good faith editorial guidance) the good faith decision of the publisher is determinative. The Authors Guild, on the other hand, prefers its own model "Satisfactory Manuscript Clause" (which, unless the author has extreme clout, will not be accepted by any publisher):

- (a) Author shall deliver a manuscript which, in style and content, is professionally competent and fit for publication. A manuscript shall be deemed professionally competent and fit for publication if it substantially follows Author's prior works and/or Author's style at the time the contract between Author and Publisher is signed.

(b) Publisher shall be deemed to have agreed that the manuscript complies with the conditions of (a) above unless, within 60 days of the manuscript's receipt, Publisher sends the author a written statement of the respects in which Publisher maintains the manuscript is not, in style and content, professionally competent and fit for publication. Author may, within 60 days after receipt of that statement, submit changes in the manuscript.

(c) If the manuscript (with any changes by the author) is not, in style and content, professionally competent and fit for publication, and Publisher has given the statement required by (b) above, Publisher may terminate this contract by written notice to Author given within 60 days after receipt of the changes pursuant to (b) above, or if no changes are submitted, within 90 days after Publisher sent the statement pursuant to (b) above.

(d) If the contract is terminated pursuant to (c) above:

(i) Author shall be entitled to retain (—) percent of the total advance and shall receive any portion of that amount not yet paid, and

(ii) if Author has received more than (—) percent of the total advance, Author shall re-pay to Publisher any portion that exceeds percent of the total advance, but only from those proceeds, if any, received by Author under a subsequent contract for publication of the work by another publisher.

7.4.3 Noncompete Clause

The publisher's form agreement often contains provisions which require the author to agree not to publish a future book that is based on the material of the book under contract or that interferes or competes with that book. Such provisions are generally sweeping and are potentially applicable to a wide range of works that the author might want to undertake. One can sympathize with a publisher's not wanting an author to come out immediately or in close proximity to the publisher's release with a competing work that will undercut the sales of the book in question. However, the publisher is rarely willing to provide reciprocal guarantees; indeed, the publisher may have several competing books in the same field. This suggests that the author should grant no more than a very limited, specific noncompetition provision.

The Authors Guild has made these comments about noncompete clauses:

These clauses can cause an author considerable harm. A publisher might claim that the characters in a novel or children's story could not be used in sequels; that the author of a textbook could not write other works on the same subject; or that one cookbook or other specialized work is all that an author could write, without the publisher's release from the non-compete clause. We do not think these claims are valid. These clauses, absolute restrictive covenants, are probably unenforceable; and they may violate the antitrust laws.

Non-compete clauses should be deleted. If the publisher refuses, the clause should be tightened. There should be a reasonably short time period, after which it expires. The types of books to which it applies should be stated specifically. Authors of textbooks should be particularly careful that they limit the effect of the clause, so that the contract for one book on a subject does not prevent them from writing other texts on the subject for other age groups, or for different types of classes or schools.

NOTE

In a variation on this theme, the poet Billy Collins found himself in a conundrum with his former publisher, The University of Pittsburgh Press (“Pittsburgh Press”), and his present and future publisher, Random House (Bruce Weber, “On Literary Bridge, Poet Hits A Roadblock” *New York Times*, 12/19/99, Arts & Leisure, p. 1). The first of three books to be published under Collins’ Random House deal was to be a collection of new and previously published works. Pittsburgh Press controlled the rights to 61 of the older poems. Citing the importance of Mr. Collins’ sales to its catalog, Pittsburgh Press refused to grant reprint rights because it felt that to do so would adversely affect sales of its books of Mr. Collins’ poetry. (The collection is now scheduled for release in April 2001).

7.4.4 Publication

Several provisions in the publisher-author contract spell out the publisher’s publication rights and duties. The publisher will normally secure the exclusive right to publish. An approximate timetable for publication of hard-cover and paperback editions may be established. The author will seek—and the publisher will resist—a specific recitation of duties on the part of the publisher to advertise and market the book. The publisher has an implied duty to promote a work, but this duty is limited to a reasonable “first push,” and no case has yet extended this implied duty any further. Therefore, the author will want to attempt to obtain specific commitments, such as an advertising budget and promotion and marketing schedule. The publisher will just as resolutely resist either a general commitment to use its best efforts or a detailed list of specific undertakings.

Typically, the publisher will agree that if the book is not published within a specified time frame (frequently, 18 months following acceptance of the manuscript) the author has the right to recapture it. In such cases, the contract will customarily provide that if the author then places the book with a third-party publisher, the author will be required to repay advances made by the original publisher. In addition, if the book is published but thereafter goes out of print (i.e., is deleted from the publisher’s catalog or “list”), the author has the right to demand that the book be put back into print or that the publishing rights be returned to the author.

NOTE

Even famous authors have complaints about their publisher’s efforts to sell and exploit a book. In 1996, Joe McGinnis, best-selling author of *Blind Faith*, returned a \$1,000,000 advance from Crown Publishing for a book about the O. J. Simpson trial to instead devote his efforts to writing *The Miracle of Castel di Sangro*, a book about a soccer team from a small town in Italy. Upon publication of *Miracle*, McGinnis criticized his publisher, Little, Brown & Company, for everything from a mediocre book cover to a cancelled tour to legal problems regarding the final chapter of the book. Despite the fact that Little, Brown took out full page ads in *The New York Times* and other newspapers, the book failed to create much interest or sales. Small publishers, on the other hand, face a dilemma when an author achieves a certain amount of success. It is a common practice for writers to jump to large publishing houses at the first sign of success, primarily for the increased marketing support and advances available.

7.4.5 Copyright

While many publishers readily agree that the copyright is to be retained by the author (a very different practice from those prevailing in the recording, film and

television industries, and to a far lesser degree in the music publishing industry) some publishers will insist that the copyright be assigned by the author. In any event, the ownership of the copyright is a question that is distinct from the granting of rights under Section 7.3.1 above. The contract should be precise both as to copyright ownership and the rights to license that flow from ownership.

7.4.6 Royalties and Other Payments

These very important provisions in the publisher-author contract require close scrutiny. Beyond the issue of the percentage actually named for the royalty, of equal and perhaps even greater importance is the definition of what that percentage is based on.

A hardback book contract will often prescribe a royalty of 10 percent of the suggested retail list price for the first 10,000 copies, 12.5 percent on the next 5,000, and 15 percent on all copies in excess of 15,000.

As for paperbacks, a new author or an author without a track record of substantial sales can usually anticipate a royalty in the area of 6 percent of “list” on the first 100,000 copies, increasing to 7.5 percent thereafter.

As further evidence of the impact of Internet, Random House has announced its e-book royalty policy—it will split its electronic book sales revenue evenly with its writers (David Kirkpatrick, “Publisher to Split E-Book Revenue,” *The New York Times*, Nov. 7, 2000, Sec. C, p. 2).

Advances are often included in publisher-author agreements. The advance may be paid on the signing of the contract, or it may be paid in stages, as parts of the manuscript are submitted. Advances vary greatly according to the likely commercial success of the book. In recent years, advances for novels have reached new heights, as witnessed by the advances paid to Ken Follett and Jeffrey Archer described above.

Expenses incurred by the author in preparing or later helping market the book should be reimbursed by the publisher, but this is not a given and must be dealt with in the original publisher-author agreement.

Virtually every publisher will have its own standard provisions governing when and how accountings and payments are to be made, as well as the time allowed for the author to audit the publisher’s books and records (and, if unsatisfied, bring suit). Such provisions are generally not very negotiable, since the publisher will want the greatest possible uniformity in this area. If the publisher does not include a provision allowing audits the author must insist upon it since there is no automatic right of audit. Most publishers will balk at including a provision for interest on late payments of royalties and/or on underpayments disclosed as the result of audit, but again, it will be a matter of relative bargaining strength.

7.4.7 Warranties and Indemnities

The provisions for warranties and indemnities attempt to shift the burden to the author if suit is brought by a third party claiming copyright violations, libel, invasions of privacy, or other actionable claims against the author’s work. These provisions are typically quite broad and extend not only to breach but also to *alleged* breach. The publisher may include a right to withhold royalties pending disposition of the matter. Obviously, this could tie up the author’s income for years and subject the author to substantial liability. Before acceding to these

types of provisions, an author should attempt to narrow the coverage. For example, the Authors Guild suggests that an author be held responsible only for situations in which he or she knew of the violation. In any event, substantial time should be spent scrutinizing the warranty and indemnity provisions to calculate the variety of situations that might be called into play.

NOTE

The importance of warranties and representations have taken on an interesting guise in *Lacoff v. Buena Vista Publishing*, 705 N.Y.S. 2d 183 (N.Y. Supp. 2000) and *Keimer v. Buena Vista Books*, 75 Cal. App. 4th 1220 (1999), rev. denied 2000. The courts in *Lacoff* and *Keimer* have taken opposing views regarding whether the cover of the book “The Beardstown Ladies’ Common-Sense Investment Guide” is commercial speech and subject to state advertising laws or noncommercial speech protected by the First Amendment. The cover of the best-selling book *The Beardstown Ladies’ Common-Sense Investment Guide* boasted a “23.4% annual return” on investments in the stock market. In truth, the annual rate of return for the Beardstown Ladies’ investments was 9.1 percent. In *Lacoff*, the New York State Supreme Court held that while the book cover was part commercial and part noncommercial, it was protected by the First Amendment and not subject to state false advertising laws. In *Keimer*, the California First District Court of Appeal held that the statement on the book cover was commercial speech and subject to the state’s deceptive practices laws. The conflict in these two decisions remains to be resolved, but book publishers and other media are clearly concerned about the chilling effect of the California ruling.

7.4.8 Future Revisions

Most books have only a limited commercial life, although certain types of books (texts, cookbooks, etc.) have continued vitality if revised and updated. The author will of course try to insist that any revisions, updates, abridgments, and so on be done by the author, while the publisher will reason that such a provision gives the author a virtual veto over any such project and, in any case, that if the author has gone on to other projects the author may not be willing to devote the time and attention which is required. The rights and duties of the author to participate in the revisions should be carefully negotiated, including provisions for when the author is unable or unwilling to participate. If the author fails to perform requested revisions within a specified time period, the publisher will want the right to look elsewhere.

7.4.9 Option for Next Work

Some publisher-author contracts attempt to bind an author to a future contract by giving the publisher an option on the next work. As we see in the case of *Pinnacle Books, Inc. v. Harlequin Enterprises, Ltd.*, below, if a publisher does not draw such a clause very carefully, it may be construed as simply an unenforceable “agreement to agree.” The Authors Guild deplores the next-book option clause and urges authors to watch for and then refuse such a clause. In general, there is little reason to bind an author to a one-way option. At most, a publisher might be given a “right of first negotiation” (i.e., a provision for a period during which the author is prohibited from negotiating with third parties so that the author and the original publisher can negotiate a possible deal for a follow-up book) or

a so-called right of first refusal (i.e., the right to match any third-party offer). Where a right of first refusal applies and the author is able to elicit one or more third party offers, this sets some objective market value on the author's present worth but still gives the original publisher the first opportunity to publish the new work. While a right of first negotiation will not have a "chilling" effect on the ability of the author to secure a deal with a third-party publisher, the author needs to understand that the existence of a right of first refusal or other matching right can, under some circumstances, have a "chilling" effect on the market value of the author's next book, since some publishers are wary of bidding in such circumstances.

7.4.10 Other Provisions

Numerous other provisions are included in typical publisher-author contracts. Typically, the contract is not assignable by the author but may be assigned by the publisher. The author may want restrictions placed on the publisher's ability to assign (for example, the author may want to insist that the assignment be made only to a publisher of equivalent or greater financial responsibility than the original publisher). In the event of an alleged breach by the publisher, the author will be required to notify the publisher and the publisher will have an opportunity to cure, usually in a period of 30 or 60 days. The publisher's right to publicize the book by using the author's name and likeness is also standard, but at times the language is overly broad and should be narrowed so that other publicity rights of the author are not impaired.

When there is more than one author, care must be exercised in defining the authors' joint and several liabilities, not only to the publisher but also to each other. Finally, there are often provisions as to proofreading duties, responsibility for an index, payment to others for use of copyrighted materials, governing law, ability to modify the agreement, an integration clause, notice procedures, number of copies of the work provided to the author, bankruptcy of the publisher, and procedures for adjudication of disputes. All should be carefully examined.

NOTE

For a treatise on this area, see Mark A. Fischer, E. Gabriel Perle and John Taylor Williams, *Perle & Williams on Publishing Law, Third Edition* (New York: Aspen Law & Business 1999)(regularly supplemented).

7.5 THE IMPACT OF CUSTOM AND USAGE

Authors are often so anxious to publish that they pay little attention to the small print of contract provisions. Despite a heightened consciousness of the pitfalls of indiscriminate contract signing, and in some cases due to a serious imbalance in bargaining power, many authors still sign whatever is thrust before them. Later, whether it be next month, next year, or several years later, many authors live to regret their hasty actions.

The time of contracting, of course, is the time to plan for the future. As *Geisel v. Poynter Products, Incorporated*, below, demonstrates, one must anticipate any number of future contingencies, even those that occur 20 or 30 years down the road, and it is also crucial to familiarize oneself with the customs and usages of

a particular industry before entering into contractual relationships within that industry.

Stein and Day v. Morgan illustrates the limits of custom and usage which will not override the express provisions of a literary publishing agreement. In the more recent decision in *Tasini v. The New York Times*, below, the digital age presents the question of whether the transfer of a work to an electronic database constitutes a revision under the Copyright Act in the absence of an express grant of digital rights.

In *Geisel v. Poynter Products, Inc.*, 295 F. Supp. 331 (S.D.N.Y. 1968) (Herlands, J.), plaintiff (better known as “Dr. Seuss”) entered into an oral agreement in 1932 with defendant Liberty Publishing Corporation, publishers of Liberty Magazine, for the preparation and sale to Liberty of a series of one-page “cartoon essays” to be published in a series of weekly issues of Liberty. Several decades later, the extent of the rights transferred to Liberty became one of the issues in plaintiff’s action in which he sought to prevent the manufacture, sale and distribution of three-dimensional figures based on the cartoons published by Liberty. Since the evidence about the terms of the oral contract was inconclusive regarding the extent of the rights transferred to Liberty, the Court looked to custom and usage in the magazine publishing industry in 1932. The court stated:

This evidence demonstrates that plaintiff agreed to prepare cartoons for publication in *Liberty Magazine*; that the cartoons were published; that plaintiff received \$300 a page; that the only copyright upon this material was in the name of Liberty Publishing Company; and that plaintiff did not *expressly* reserve any rights in the cartoons.

There is evidence, and the Court so finds, that, with certain exceptions which do not apply in this case, the custom and usage in 1932 in the magazine trade were that an agreement for the sale of a work between authors or their agents and magazines was oral and not a formal written contract. . . . The agreement was usually reached after *only* monetary terms were discussed. . . . This contrasts with the custom in the book publishing field in which similar contracts were written. . . .

In this case, there was no *express* agreement that *Liberty Magazine* would hold the copyright in trust for plaintiff or that plaintiff reserved any rights in the cartoons. However, much evidence was offered by both sides with respect to the issue whether there was any settled and established custom and usage in the magazine publishing trade in 1932 by which any terms or conditions were implied in fact or understood to be part of a contract between an author or his agent and a weekly magazine; and if so, what were those implied-in-fact terms.

Evidence was also offered with respect to the issue whether there was any settled and established custom and usage concerning what the magazine was impliedly agreeing to in fact with respect to the extent of the magazine’s use of the purchased material; and concerning the alleged practice of a magazine to hold its copyright in trust for the author and to reassign its copyright upon the request of the author. . . .

The court continued:

Plaintiff offered the testimony of three witnesses with respect to the above mentioned customs and usages in 1932 in the magazine publishing trade: Bennett Cerf, Leland Hayward and plaintiff himself.

Mr. Cerf has been a *book* publisher since 1925 and has himself written books as well as articles for periodicals. . . . Plaintiff’s books are published by the firm of

which Cerf is chairman of the board . . . ; and, in fact, plaintiff is the president of a division of that firm. . . . Mr. Cerf is an eminent personality in the field of book publishing. However, his testimony with respect to customs and usages in the *magazine* trade is found by the Court to be tenuous and unpersuasive. He repeatedly admitted his unfamiliarity with magazine customs . . . and with contracts between magazines and authors or their agents. . . . Furthermore, some of his testimony presents internal inconsistencies and self-contradictions. . . .

On the basis of the great weight of the credible evidence, the Court finds that during the relevant period it was the custom and usage in the magazine trade for the magazine to obtain a copyright upon the entire contents of the magazine. . . . However, the author or artist could also obtain a separate copyright upon his particular work . . .

Virtually all the testimony was in agreement on the proposition, which the Court finds established, that there was a settled custom and usage in the magazine publishing trade in the early 1930s by which a term or condition defining the scope of rights was implied in fact or understood to be part of the agreement between the author or his agent and the magazine. . . .

After reviewing the evidence of custom and usage from both plaintiff and defendant, the court held that “the custom and usage in 1932 in the magazine trade implied in fact in the *Geisel-Liberty Magazine* agreement a provision whereby all rights or complete rights were assigned to *Liberty Magazine*,” that the terms ‘all rights’ or ‘complete rights’ [had] a nontechnical and literal meaning” and that Geisel had sought “to impart to these words a connotation that is diametrically opposite to their plain, colloquial sense.”

The court approved the manufacture, distribution and sale of three-dimensional figures fairly representing Geisel’s characters and indicating their origin, so long as Poynter neither stated nor implied that Geisel had endorsed the products.

NOTES

1. In a later case, the court declared the widow of an artist rather than *Playboy* magazine to be the owner of works created by the artist for the magazine between 1974 and 1984. Despite the presence of check endorsements reciting that they constituted “payment in full for all right, title and interest in and to [the artwork items],” the works could not be considered to have been created as “works for hire” because, inter alia, the checks were endorsed only after the works had been created, which did not meet the requirements of the “work for hire” provisions of Section 101 of the Copyright Act of 1976 and testimony indicated that under magazine industry custom and usage, a publisher in such a situation acquired one-time rights only. *Playboy Enterprises, Inc. v. Dumas*, 831 F. Supp. 295 (S.D.N.Y. 1993).

2. In *Warner Bros. Pictures, Inc. v. Columbia Broadcasting System, Inc.*, 216 F.2d 945 (9th Cir.), cert. denied, 348 U.S. 971 (1954), custom and usage helped to defeat Warner Bros.’ claim that by purchasing film rights to Dashiell Hammett’s *The Maltese Falcon*, Warner Bros. had thereby acquired exclusive rights to Hammett’s fictional detective, Sam Spade. Hammett and CBS claimed the right to use Sam Spade in new adventures.

The Court concluded that the omission of a reference to characters in the grant of rights defeated Warner Bros.’ claim, stating (at 949):

The conclusion that these rights are [excluded] is strongly buttressed by the fact that historically and presently detective fiction writers have and do carry the leading characters with their names and individualisms from one story into succeeding stories. This was the practice of Edgar Allen Poe, Sir Arthur Conan Doyle, and others; and in the last two decades of S. S. Van Dine, Earle [sic] Stanley Gardner, and others. . . . If the intention of the contracting parties

had been to avoid this practice which was a very valuable one to the author, it is hardly reasonable that it would be left to a general clause following specific grants . . .

Stein and Day, Incorporated v. Morgan, 5 Med.L.Rptr. 1831 (Sup. Ct. N.Y. County 1979)

STECHEER, J.

This is an action tried without a jury. After [trial] I make the following findings:

On Sept. 6, 1972, the parties entered into a written agreement pursuant to which the defendant Morgan would write, and the plaintiff Stein and Day Incorporated would publish, two books: one was to be entitled *Anchor Woman* and the other *NBC, A Biography of the Corporation*. By its terms [Para. 8] the author agreed

to deliver to the Publisher on or before [see Cl. 19(B)] a copy of the manuscript complete and satisfactory to the Publisher, and ready for press. . . . If the Author fails to deliver the manuscript in a form acceptable to the Publisher within the specified time, unless extended in writing by the Publisher, the Publisher may decline to publish the Work and recover any and all amounts that may have been advanced to the Author, and terminate this agreement subject to the Publisher's right to recover any and all amounts that may have been advanced to the Author.

19(B). Delivery Date—*Anchor Woman*, Sept. 15, 1973.

NBC, A Biography of the Corporation, Sept. 15, 1971.

An advance of \$35,000 was given to Mr. Morgan in four quarterly installments beginning Dec. 15, 1972 conditioned upon the scheduled delivery of portions of *Anchor Woman*.

Anchor Woman was timely delivered, published and has earned royalties for the defendant of \$20,424.51. None of the royalties have been paid to the defendant but have been applied, in accordance with the terms of the contract, against the advance.

The *NBC* book was never delivered. At some time in 1974, Morgan, who had been with NBC in a variety of capacities for some twenty years and had by this time left NBC's employ, discussed with Mr. Stein, president of the plaintiff, his reluctance to write the *NBC* book. In his words, he was in a "no win" situation—he didn't wish to write a critical book for it would be rejected as "sour grapes" and he did not wish to write a laudatory book. Morgan and Stein agreed that, in lieu of the *NBC* book, the defendant would deliver a novel entitled *First Lady*. Sometime in June or July 1975, Stein received about 130 pages of *First Lady*. This portion of the draft and Stein's criticism were delivered to Morgan's agent, Mrs. Pryor, under cover of Stein's letter of July 13, 1975 and, thereafter, by letter dated July 23, 1975. Morgan wrote to Stein agreeing in substance with the criticism.

Between July and October what purported to be a complete *First Lady* novel was delivered to the plaintiff. By letter of Oct. 15, 1975, Stein sent to Morgan's agent a criticism of the novel written by one of Stein's senior editors whose conclusion it was that the draft was not worth editing. Stein requested that the book be rewritten. A week later, Mrs. Pryor requested the return of the manuscript concluding that there was no point to resubmission.

Upon the return of the manuscript, Mrs. Pryor attempted to sell it to at least

four other well known publishers and each of them rejected the manuscript. She had and has no plans for submitting it anew to any publishers.

The plaintiff pursuant to the provisions of the agreement set forth above seeks to recoup that portion of the advance which was not covered by the royalties earned by *Anchor Woman*. No portion of the advance was allocated to either book, it being the intention of the parties that the entire advance be covered by both books and that the royalties from both books, together, be charged against the entire \$35,000 advance. No claim is made by the plaintiff concerning the timeliness of delivery of the manuscript; the claim involves solely the question of acceptability to the publisher.

The defendant contends presumably that objectively the manuscript was “acceptable” and argues with greater emphasis that the custom of the publishing industry bars a refund of any portion of the advance.

There can be no doubt that the publisher was motivated in refusing this manuscript by “an honest dissatisfaction” with *First Lady* [see *Baker v. Chock Full o’Nuts Corp.*, 30 A.D. 2d, 329, 332] and that the rejection was made in good faith.

The defendant offered testimony that the custom of the publishing industry with respect to an unsatisfactory manuscript required that all sums advanced to the time of submission of the manuscript be retained by the author; that no further installments of the advance need be paid; that if the manuscript is thereafter sold to another publisher, it is the author’s obligation, from the new consideration, to reimburse the first publisher to the extent of the advance; and that in the absence of sale to a new publisher, the publisher making the advance absorbs the loss represented by the advance. The testimony as to custom was uncontradicted.

A custom of an industry cannot overcome the express language of a written agreement. If custom and language are consistent both shall be enforced; but where, as here, they are in conflict, the express language shall prevail [UCC 1–205 subd 4]. The parties expressly agreed that if the manuscript was not acceptable to the publisher, the publisher was entitled to recoup his advance. In this case, it was the intention of the parties that the advance be recouped less those sums of money attributable to royalties earned. It would thus appear that the plaintiff was entitled to judgment for the amount of the advance which exceeded royalties. In accordance with the stipulation of the parties, however, there shall be deducted from the amount to which the plaintiff is entitled a reserve held by the publisher against another book as set forth in Exhibit (I) for identification dated June 30, 1978 in the sum of \$1,194.82.

Accordingly, the plaintiff is entitled to judgment in the net amount of \$13,380.67 with interest from Oct. 14, 1977, the date of the plaintiff’s demand for reimbursement and judgment may be entered accordingly.

The issue of custom and usage has followed us to the Internet, as we see in the following case, but the result (as well as the reasoning) is considerably different from that in *Geisel*.

Tasini v. The New York Times Company, Inc. 206 F.3d 161 (2d Cir. 1999), cert. granted sub nom. *New York Times Company, Inc. v. Tasini*, 121 S.Ct. 425 (2000)

WINTER, CHIEF JUDGE

Six freelance writers appeal from a grant of summary judgment dismissing their complaint. The complaint alleged that appellees had infringed appellants’ various

copyrights by putting individual articles previously published in periodicals on electronic databases available to the public. [The lower court] held that appellees' use of the articles was protected by the "privilege" afforded to publishers of "collective works" under Section 201(c) of the Copyright Act of 1976 ("Act" or "1976 Act"), 17 U.S.C. 201(c). We reverse and remand with instructions to enter judgment for appellants.

Background

Appellants [were not employed by defendants and did not write works-for-hire. They were the holders of the copyrights in their articles]. [Defendants](collectively, "Publishers") are periodical publishers who regularly create "collective works," see 17 U.S.C. 101, that contain articles by free lance authors as well as works created for-hire or by employees . . . [T]he Publishers' general practice was to negotiate due-dates, word counts, subject matter and price; no express transfer of rights under the Author's copyright was sought . . .

The gist of the Authors' claim is that the copyright each owns in his or her individual articles was infringed when the Publishers provided them to the [other defendants'] electronic databases. [The Publishers] argue that the Publishers own the copyright in the "collective works" that they produce and are afforded the privilege, under Section 201(c) of the Act, of "reproducing and distributing" the individual works in "any revision of that collective work." 17 U.S.C. 201(c). The crux of the dispute is, therefore, whether one or more of the pertinent electronic databases may be considered a "revision" of the individual periodical issues from which the articles were taken.

Discussion

. . . These works were published with the Authors' consent . . . [However,] Section 201(c) does not permit the Publishers to license individually copyrighted works for inclusion in the electronic databases. . . .

Section 201 of the Act provides, *inter alia*, that as to contributions to collective works, the "[c]opyright in each separate contribution . . . is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution." 17 U.S.C. 201(c). Correspondingly, Section 103, which governs copyright in compilations and derivative works, provides in pertinent part that:

The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material.

17 U.S.C. 103(b). Section 101 states that "[t]he term 'compilation' includes collective works." 17 U.S.C. 101. It further defines "collective work" as "a work, such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole." *Id.*

Publishers of collective works are not permitted to include individually copyrighted articles without receiving a license or other express transfer of rights from the author. However, Section 201(c) creates a presumptive privilege to authors of collective works. Section 201(c) creates a presumption that when the author of an article gives the publisher the author's permission to include the article in a collective work, as here, the author also gives a non-assignable, non-

exclusive privilege to use the article as identified in the statute. It provides in pertinent part that:

In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series. 17 U.S.C. 201(c).

Under this statutory framework, the author of an individual contribution to a collective work owns the copyright to that contribution, absent an express agreement setting other terms. *See id.* The rights of the author of a collective work are limited to “the material contributed by the [collective work] author” and do not include “any exclusive right in the preexisting material.” 17 U.S.C. 103(b). Moreover, the presumptive privilege granted to a collective-work author to use individually copyrighted contributions is limited to the reproduction and distribution of the individual contribution as part of: (i) “that particular [*i.e.*, the original] collective work”; (ii) “any revision of that collective work”; or (iii) “any later collective work in the same series.” 17 U.S.C. 201(c). Because it is undisputed that the electronic databases are neither the original collective work—the particular edition of the periodical—in which the Authors’ articles were published nor a later collective work in the same series, appellees rely entirely on the argument that each database constitutes a “revision” of the particular collective work in which each Author’s individual contribution first appeared. We reject that argument.

We begin, as we must, with the language of the statute. *See Lewis v. United States*, 445 U.S. 55, 60 (1980). The parameters of Section 201(c) are set forth in the three clauses just noted. Under ordinary principles of statutory construction, the second clause must be read in the context of the first and third clauses. [Citations omitted.] The first clause sets the floor, so to speak, of the presumptive privilege: the collective-work author is permitted to reproduce and distribute individual contributions as part of “that particular collective work.” In this context, “that particular collective work” means a specific edition or issue of a periodical. *See* 17 U.S.C. 201(c). The second clause expands on this, to permit the reproduction and distribution of the individual contribution as part of a “revision” of “that collective work,” *i.e.*, a revision of a particular edition of a specific periodical. Finally, the third clause sets the outer limit or ceiling on what the Publisher may do; it permits the reproduction and distribution of the individual contribution as part of a “later collective work in the same series,” such as a new edition of a dictionary or encyclopedia.

The most natural reading of the “revision” of “that collective work” clause is that Section 201(c) protects only later editions of a particular issue of a periodical, such as the final edition of a newspaper. Because later editions are not identical to earlier editions, use of the individual contributions in the later editions might not be protected under the preceding clause. Given the context provided by the surrounding clauses, this interpretation makes perfect sense. It protects the use of an individual contribution in a collective work that is somewhat altered from the original in which the copyrighted article was first published, but that is not in any ordinary sense of language a “later” work in the “same series.”

In this regard, we note that the statutory definition of “collective work” lists as examples “a periodical issue, anthology, or encyclopedia.” 17 U.S.C. 101. The use of these particular kinds of collective works as examples supports our reading

of the revision clause. Issues of periodicals, as noted, are often updated by revised editions, while anthologies and encyclopedias are altered every so often through the release of a new version, a “later collective work in the same series.” Perhaps because the “same series” clause might be construed broadly, the House Report on the Act noted that the “revision” clause in Section 201(c) was not intended to permit the inclusion of previously published freelance contributions “in a new anthology or an entirely different magazine or other collective work,” *i.e.*, in later collective works not in the same series. H.R. Rep. No. 94-1476, at 122-23 (1976), *reprinted in* 1976 U.S.C.A.A.N. 5659, 5738.

Moreover, Publishers’ contention that the electronic databases are revised, digital copies of collective works cannot be squared with basic canons of statutory construction. First, if the contents of an electronic database are merely a “revision” of a particular “collective work,” *e.g.*, the August 16, 1999 edition of *The New York Times*, then the third clause of Section 201(c)—permitting the reproduction and distribution of an individually copyrighted work as part of “a later collective work in the same series”—would be superfluous. [Citations omitted.] An electronic database can contain hundreds or thousands of editions of hundreds or thousands of periodicals, including newspapers, magazines, anthologies, and encyclopedias. To view the contents of databases as revisions would eliminate any need for a privilege for “a later collective work in the same series.”

Second, the permitted uses set forth in Section 201(c) are an exception to the general rule that copyright vests initially in the author of the individual contribution. Reading “revision of that collective work” as broadly as appellees suggest would cause the exception to swallow the rule. [Citation omitted.] Under Publishers’ theory of Section 201(c), the question of whether an electronic database infringes upon an individual author’s article would essentially turn upon whether the rest of the articles from the particular edition in which the individual article was published could also be retrieved individually. However, Section 201(c) would not permit a Publisher to sell a hard copy of an Author’s article directly to the public even if the Publisher also offered for individual sale all of the other articles from the particular edition. We see nothing in the revision provision that would allow the Publishers to achieve the same goal indirectly through NEXIS.

Appellees’ reading is also in considerable tension with the overall statutory framework. Section 201(c) was a key innovation of the Copyright Act of 1976. Because the Copyright Act of 1909 contemplated a single copyright, authors risked losing their rights by allowing an article to be used in a collective work. *See* 3 Melville Nimmer & David Nimmer, *Nimmer on Copyright* 10.01[A] (1996 ed.) (discussing doctrine of indivisibility). To address this concern, the 1976 Act expressly permitted the transfer of less than the entire copyright, *see* 17 U.S.C. 201(d), in effect replacing the notion of a single “copyright” with that of “exclusive rights” under a copyright. *Id.* 106, 103(b)[Statutory provisions omitted] . . . Were the permissible uses under Section 201(c) as broad and as transferrable as appellees contend, it is not clear that the rights retained by the Authors could be considered “exclusive” in any meaningful sense.

[The NEXIS database] can hardly be deemed a “revision” of each edition of every periodical that it contains.]

Moreover, NEXIS does almost nothing to preserve the copyrightable aspects of the Publishers’ collective works, “as distinguished from the preexisting material employed in the work.” 17 U.S.C. 103(b). The aspects of a collective work that make it “an original work of authorship” are the selection, coordination, and

arrangement of the preexisting materials. [Citations omitted.] However, as described above, in placing an edition of a periodical such as the August 16, 1999 New York Times, in NEXIS, some of the paper's content, and perhaps most of its arrangement are lost. Even if a NEXIS user so desired, he or she would have a hard time recapturing much of "the material contributed by the author of such [collective] work." 17 U.S.C. 103(b). In this context, it is significant that neither the Publishers nor NEXIS evince any intent to compel, or even to permit, an end user to retrieve an individual work only in connection with other works from the edition in which it ran. Quite the contrary, The New York Times actually *forbids* NEXIS from producing "facsimile reproductions" of particular editions . . . What the end user can easily access, of course, are the preexisting materials that belong to the individual author under Sections 201(c) and 103(b) . . .

We emphasize that the only issue we address is whether, in the absence of a transfer of copyright or any rights thereunder, collective-work authors may relicense individual works in which they own no rights. Because there has by definition been no express transfer of rights in such cases, our decision turns entirely on the default allocation and presumption of rights provided by the Act. Publishers and authors are free to contract around the statutory framework . . .

Conclusion

We therefore reverse and remand with instructions to enter judgment for appellants.

NOTE

The lower court rejected defendant *Newsday's* contention that a legend on the checks it used to pay for freelance pieces made those checks, once endorsed, express transfers of copyright pursuant to Section 204(a) of the Copyright Act, *Tasini v. New York Times Co.*, 972 F. Supp. 804, 810–811 (S.D.N.Y. 1997), a conclusion with which the Second Circuit agreed, noting that The New York Times had since revised its form to include rights of the type involved in the *Tasini* decision.

7.6 THE "NEXT BOOK" OPTION

Pinnacle Books, Inc. v. Harlequin Enterprises, Ltd., 519 F. Supp. 118 (S.D.N.Y.), *aff'd*, 661 F.2d 910 (2d Cir. 1981)

DUFFY, DISTRICT JUDGE

This is an action for a permanent injunction and damages resulting from the allegedly unlawful interference of defendant Harlequin Enterprises Limited ["Harlequin"] with the contractual relationship between plaintiff Pinnacle Books, Inc. ["Pinnacle"] and its most successful author, Don Pendleton ["Pendleton"]. Pinnacle claims that Harlequin induced Pendleton to breach his contract with Pinnacle and to enter into an agreement with Harlequin pursuant to which it will publish new books in or relating to a series of paperback men's action/adventure books entitled "The Executioner" [sometimes referred to herein as the "Series"]. Pinnacle now moves for summary judgment . . .

Pinnacle is a publisher of mass-market and trade paperback books. The company has offices in New York City and Los Angeles. It has been publishing "The Executioner" series since the inception of the series in 1969. Pinnacle has published thirty-eight different titles in "The Executioner" series and sold approxi-

mately twenty million copies. Pendleton, the author of the Series, is the copyright owner of the Series.

In 1976, Pinnacle and Pendleton entered into an agreement whereby Pinnacle agreed to publish books 29 through 38 . . . [which included the following option clause]:

VII. The Author grants the Publisher the option to renew this contract for the books in THE EXECUTIONER series following the ten books covered hereby on terms to be agreed, and, if, after extending their best efforts, the parties are unable to reach an agreement thereon, then Author shall be free to offer rights in such other books in THE EXECUTIONER series to any other publisher, provided the publication thereof does not occur until the expiration of 3 months following the first publication of the tenth book hereunder.

The manuscript for the last book under the 1976 Agreement was delivered to Pinnacle on December 14, 1979. By that time, Andrew Ettinger, the Editorial Director of Pinnacle, had begun negotiations with Pendleton for an extension of the 1976 Agreement. These discussions between Ettinger and Pendleton occurred as early as September 8, 1978 and continued until November 1979, at which time Ettinger left Pinnacle and joined Harlequin. According to Ettinger, he was unable to consummate a renewal of the 1976 Agreement before he left Pinnacle because an outstanding dispute between Pendleton and Pinnacle regarding foreign royalty rights had not been resolved. By late 1979, however, an acceptable resolution of the dispute had been reached and Pendleton was ready and willing to discuss an extension of the 1976 Agreement.

Negotiations between Pinnacle and Pendleton continued until about February 10, 1980. According to Pinnacle, the discussions had been congenial and the conditions established by Pendleton had either been satisfied in full or could have been met if the parties had proceeded with the negotiations in good faith and using their best efforts.

Meanwhile, Harlequin, a Canadian publisher and distributor of paperback books throughout the world, also had developed an interest in Pendleton. Having achieved spectacular success in the romance novel market, Harlequin was exploring the feasibility of entering the action/adventure line of book publishing. Ettinger, who was now affiliated with Harlequin, began meeting with Pendleton in early January 1980 to discuss the possibility of Harlequin becoming Pendleton's publisher. On about February 10, 1980, Pendleton advised Pinnacle that, at Harlequin's invitation, he was planning to visit its Toronto headquarters where he expected Harlequin to discuss the possibility of licensing to it rights in "The Executioner" series. Pendleton also indicated that he wished to halt discussions on the Pinnacle offer until he heard from Harlequin. At the conclusion of his discussion with Harlequin, Pendleton signed a preliminary agreement to license the Series and its characters to Harlequin. On May 15, 1980, Pendleton signed the formal agreement with Harlequin pursuant to which twelve books in "The Executioner" series and four to six spin-offs from that Series would be published annually by Harlequin.

Pinnacle instituted this action in September 1980 against Harlequin seeking injunctive and compensatory relief. Pinnacle alleges that Harlequin, although fully aware of Pendleton's contractual obligations to Pinnacle and that Pinnacle was still negotiating with Pendleton, induced Pendleton to break off negotiations

with Pinnacle just as final agreement on new contract terms was near. Pinnacle now moves for summary judgment. Harlequin argues against the motion for summary judgment on the grounds that the option clause on which Pinnacle bases its case is unenforceable. . . .

To succeed in an action for interference with contractual relations, the plaintiff must establish first and foremost the existence of a valid contract. . . .

In the instant case, Pinnacle accuses Harlequin of interfering with the option clause in the 1976 Agreement. As noted above, that clause provides that, after Pendleton has fulfilled his obligation to deliver books 29 through 38 of “The Executioner” Series, the parties would use their “best efforts” to negotiate a new contract “on terms to be agreed” for delivery of an unspecified number of new Executioner books. Clause VII of the 1976 Agreement. Harlequin contends that this clause is unenforceable because either (i) it is nothing more than an unenforceable “agreement to agree”; or (ii) the material terms of the “best efforts” clause are too vague.

Harlequin’s first contention that the “best efforts” clause is an unenforceable “agreement to agree” is inappropriate in this case. Clause VII of the 1976 Agreement does not require that any agreement actually be achieved but only that the parties work to reach an agreement actively and in good faith. . . .

Harlequin is correct, however, in arguing that the “best efforts” clause is unenforceable because its terms are too vague. “Best efforts” or similar clauses, like any other contractual agreement, must set forth in definite and certain terms every material element of the contemplated bargain. It is hornbook law that courts cannot and will not supply the material terms of a contract.

Essential to the enforcement of a “best efforts” clause is a clear set of guidelines against which the parties’ “best efforts” may be measured. . . . The performance required of the parties by a “best efforts” clause may be expressly provided by the contract itself or implied from the circumstances of the case. . . . In the case at bar, there simply are no objective criteria against which either Pinnacle or Pendleton’s efforts can be measured.

Pinnacle’s argument that the parties’ obligations under the “best efforts” clause are clear from the circumstances of the case is without merit. While it is possible to infer from the circumstances the standard of performance required by a “best efforts” clause where the parties have agreed to work toward a specific goal, . . . it is not so here where the parties have agreed only to negotiate. The performance required by a contract to negotiate with best efforts, unlike the performance required by a distribution contract or a patent assignment, simply cannot be ascertained from the circumstances. Unless the parties delineate in the contract objective standards by which their efforts are to be measured, the very nature of contract negotiations renders it impossible to determine whether the parties have used their “best” efforts to reach a new agreement. Certainly, no party to a negotiation, no matter what the circumstances, is required to make a particular offer nor to accept particular terms. What each party offers or demands in the course of any negotiation is a matter left strictly to the business judgment of that party. Thus, absent express standards, a court cannot decide that one party’s offer does not constitute its best efforts; nor can it say that the other party’s refusal to accept certain terms does not constitute its best efforts.

In the instant case, therefore, where the parties agreed only to negotiate and failed to state the standards by which their negotiation efforts were to be measured, it is impossible to determine whether Pinnacle or Pendleton used their

“best efforts” to negotiate a new agreement. For instance, there simply is no objective standard by which the court can determine whether Pinnacle’s offer constituted its best efforts; nor can it decide whether Pendleton’s participation in negotiations with Pinnacle for over a year were his best efforts. In short, the option clause is unenforceable due to the indefiniteness of its terms. Accordingly, Pinnacle’s motion for summary judgment is denied [as is plaintiff’s motion for temporary injunction pending appeal.]

NOTE

In *Thompson v. Liquichimica of America, Inc.*, 481 F. Supp. 365 (S.D.N.Y. 1979), a “best efforts” clause was distinguished from an agreement to agree and was held enforceable. The court found it to constitute a “closed proposition discrete and actionable.” The Pinnacle court disagreed with the reasoning in *Thompson*. In addition, *Pinnacle* distinguished the *Thompson* situation, asserting the terms of the agreement in *Thompson* were more specific and provided sufficient criteria against which the parties’ efforts could be measured. See 519 F. Supp. at 122. Even so, despite the Pinnacle court’s attempted distinguishing of *Thompson*, the two cases stand in contrast with each other.

MUSIC PUBLISHING

8.1 AN OVERVIEW OF THE MUSIC PUBLISHING INDUSTRY

As Internet development explodes in every direction (see Chapter 12), the music publishing industry is undergoing dramatic change. Without question, the industry will present a different face in a few years from that which is now perceived. The “players” may change, and the economic models upon which they base their businesses are already changing. Therefore, the customs and usages which have prevailed in the past will evolve or, in some cases, disappear altogether. Nevertheless, if past experience is any guide, music deals in the Internet age will probably continue to be made with an eye toward how business has been done in the past. Therefore, it makes sense to review the business as we see it now.

The song—its creation, discovery, protection, licensing, exploitation, and resultant income—has been and remains the focus of the music publishing industry. The functions of the music publisher include working on a creative level with songwriters in the composing of new songs, protecting and enforcing their copyrights, seeking potential licensees for songs, entering into licensing arrangements for such uses, and collecting and disbursing the resulting income.

Just as the songs have changed, technology has changed the way in which music publishers do business: It has enlarged potential sources of income and made the industry much more complex. Virtually all of the technological innovations affecting the entertainment industries in recent decades, including cable television, videocassettes, CD-ROMs, interactive media, satellite transmission, online delivery of music, pay-per-view, compact discs, and other digital sound formats (for example, new “digital juke boxes,” which permit tracking of—and payment for—actual usages, are beginning to replace older, conventional jukeboxes the music license fee for which was some \$50 per box per year), have resulted in the expansion of the music publishing business through new outlets and greater usage of music. In 1998, worldwide music publishing revenues exceeded \$6.54 billion (*NMPA International Survey of Music Publishing Revenues, Ninth Edition*).

Technological advances have also presented legal and business challenges to the publishing industry. As musicians and producers found a new way of recording through digital “sampling” of pre-existing recordings, publishers and record labels were faced with the immediate question of when such sampling constitutes a copy of a pre-existing composition requiring a license or poses the possibility of a claim for infringement and such issues as appropriate fees, claims of copyright ownership, and damages for infringement. As a practical matter, in most situations where a significant sample of a musical composition is used, the publisher and producer/artist/label are able to work out a mutually satisfactory license arrangement. In the case of *Grand Upright Music, Ltd. v. Warner Bros. Records, Inc.* (see Section 8.08), we see the potential problems that can result from releasing a record with “uncleared samples.”

Digital audio broadcasting (DAB), Napster and MP3.com (the latter two technologies being discussed in Chapter 12) are other technological advances that challenge the music publishing (and record) industry, as issues of copyright owner compensation, a satisfactory monitoring system for programming, and the allocation of license fees for transglobal broadcast of copyrighted material through multiple territories, have yet to be resolved. While the information superhighway poses enormous potential opportunities for music publishers it also creates risks and problems, causing creators such as lyricist Hal David (“Promises, Promises”) to state that songwriters feel like “road kill on the information highway.” Efforts to ease the impact of new technologies upon the music and recording industries have not been uniformly successful. For example, the Audio Home Recording Act of 1992, which imposed a basic 2 to 3 percent surcharge on the manufacturers and distributors of digital audio recorders and digital recording “blanks,” allocated one-third of all such digital royalty income to music publishing rights (split equally between songwriters and publishers) but did not specify how the income would be allocated among individual payees (an unresolved issue that will take many years to resolve), and, because it was tailored so closely to then-existing technology, was held not to apply to the Diamond Rio portable MP3 player (see Chapter 12.)

Prior to the explosive growth of the record business beginning in the 1950s, marked by the advent of the LP, stereo, and rock and roll, the role of the music publisher was quite different from what it has been since that time. In the early years of this century, music publishers made most of their money from the sale of printed music. They hired “song pluggers” (such as the young Irving Berlin and George Gershwin) to play their numbers on pianos set up in music stores to encourage the purchase of printed music. The song pluggers also auditioned numbers for theatrical, vaudeville, and cabaret performers in the hope of achieving exposure for the catalogs of their employers.

With the organization of the American Society of Composers, Authors, and Publishers (ASCAP), a second major source of income—from so-called small performing rights—emerged. Fees were collected from live performances and later from radio (and still later from TV) by ASCAP and by its competitor, Broadcast Music, Inc. (BMI), which arrived on the scene in the 1940s. SESAC, the third performing rights society in the United States, began an aggressive campaign in recent years to attract writers and publishers in the Latin and pop market fields (signing Bob Dylan and Neil Diamond in 1995).

The record business grew slowly. As was the case with vaudeville and cabaret performers, early recording artists rarely wrote their own material and were re-

ceptive to the offerings of the song pluggers, a situation that continued to prevail until the emergence of the self-contained rock-and-roll and “folk performers,” who tended to write their own material. Artists such as Bing Crosby, Frank Sinatra, and Doris Day rarely, if ever, wrote their own material nor, for the most part, did the great big-band names such as Tommy Dorsey, Harry James, Benny Goodman, and Artie Shaw.

As the primary revenue sources for music publishers shifted from printed music and live performances to “mechanical royalties” from phonograph records and fees from radio and then TV airplay, so too did the role of the music publisher. The song pluggers were gradually replaced by the “professional manager,” who bears some relationship to the A&R (artists and repertoire) person in the record business. “Professional managers” attempt to convince recording artists and producers to record their companies’ catalogs, but they are perhaps more oriented toward talent scouting—that is, finding young writers or, preferably, writer/performers with recording potential whom the publisher can develop and in whom the publisher can invest. As the post-Beatles popular music trend has clearly moved in the direction of the artist/songwriter, the publisher has followed that trend in pursuing the songwriter who can record and perform his or her own songs.

This is not to say that song plugging or the nonartist songwriter are no longer parts of the business. Country music still relies heavily on both “staff writers” of publishing companies and outside material for many of its artists. Many of the hits in that genre are the direct result of the publisher’s plugging the right song to the right artist. In addition, pop music has developed a roster of “superstar” songwriters, such as Diane Warren, Babyface, Billy Steinberg, and Tom Kelly, who have the gift of creating songs that contemporary hit radio wants to play. Because radio airplay has become increasingly difficult to obtain and because such airplay is generally a prerequisite to a “hit” record, publishers of writers who are perceived as writing hit songs see great demand for those songs that the producer, label, or manager think will ignite or jump start a recording career. (Of course, given the ease of entry to the Internet, the growth of “streaming audio,” and the availability of exposure through such outlets as MP3.com and Emusic.com, the significance of conventional radio airplay can be expected to diminish considerably.) Moreover, the proliferation of unauthorized musical websites with global reach has served to emphasize the importance of collective enforcement, both by individual publishing companies and by trade organizations.

The structure of the music publishing industry is similar to that of the recording industry in certain respects and different in others. The similarity stems from the consolidation that has occurred in recent years in virtually all of the entertainment industries. As the business became much more international in scope and as deal inflation dramatically drove up the cost of signing the next potential superstar songwriter or buying a catalog of songs, the concentration of a larger proportion of the music publishing industry in a few conglomerates was inevitable. As a result, more songs were bought and sold in the 1980s than in all of the preceding decades of the twentieth century combined, and the catalog purchase agreement became as familiar to the industry as the songwriter agreement.

The two largest, EMI Music Publishing and Warner/Chappell (the latter owned by AOL Time Warner), administer catalogs of well over a million songs, including a large proportion of the “standards,” i.e., those songs which demon-

strated sustained staying power. Each of these companies was itself the result of numerous purchases and/or mergers, largely in the 1980s. Warner Chappell Music resulted from a 1987 merger between Warner Bros. Music and Chappell Music Group, which had itself been sold in 1984 by PolyGram Records. EMI Music bought SBK in 1989 for an estimated \$337 million for approximately 250,000 songs, which consisted largely of the catalog of CBS Songs that SBK had acquired in 1986 for an estimated \$125 million.

Other major publishing companies today include Universal Music (a division of Universal Studios, Inc., itself a subsidiary of France's Vivendi, owner of major pay television outlet Canal Plus), which itself acquired former major PolyGram, Sony Music (formerly CBS Music, which bought Nashville-based Tree International in 1988 for about \$40 million), and BMG Music Publishing (owned by the German multinational corporation, Bertelsmann Music Group). In fact, it is hard to find an American record company that does not have its own affiliated music publishing company, and those that do not often are new companies that will include a "first refusal" clause for publishing in their artist recording agreements.

Where the structure of the music publishing business differs from that of the record industry is in the existence of a wide range of independent music publishers. This situation came about largely due to the difference between the record and music publishing businesses in the "hard copy" world. Labels relied on a distribution system dominated by six (at this point, due to mergers, four) companies to sell their product, while a publisher with a hit song could do business with a telephone and a fax machine. Because publishers were not as reliant on a distribution system for their business, many more of them were able to survive and prosper as independents. Significant remaining independent publishers include Zomba Music, Rondor (Almo/Irving) Music (which until 1989 was a subsidiary of A&M Records), and Windswept Pacific. In addition, almost every motion picture studio or production company has its own publishing company, which generally will own and control almost all of the newly composed music included in its motion pictures and television programming.

The industry also includes a number of private publishing companies owned by songwriters (among those who have or have had their own companies: Paul McCartney, Neil Diamond, Bob Dylan, Bruce Springsteen, Michael Jackson, and Paul Simon.) While it is true that there are a large number of independent publishers, an increasing number of them rely upon the major worldwide publishers to administer their catalogs or to collect income in specified territories.

8.2 SOURCES OF REVENUE

According to a study released by the National Music Publishers Association, worldwide music publishing revenues for 1997 were in excess of \$6.29 billion. These revenues were derived from the following sources:

- Fees from so-called small performing rights—payment for the playing of music on radio and television, in concert halls, arenas, bars, and other locales, and via "streaming" over the Internet.
- "Mechanical royalties" paid for the use of musical compositions on phonograph records in all of the various formats, including tape and CD (and, of course, via download). The

phrase “mechanical royalties” comes from the fact that the earliest music publishing royalties were derived from player-piano’s perforated-paper music rolls.

- Royalties from printed editions of songs. Although print was the principal source of income before the explosion of records, television, film, and radio, its proportionate share of the publishing pie is now quite small. The print field includes educational materials, including teaching materials for learning various instruments, single piano or vocal sheets of top songs, and “personality” folios of particular artist or “mixed” folios (for example, “Hits of the Sixties”). There are three significant print publishers in the United States: Hal Leonard, Warner Bros. Publications and Cherry Lane Music.
- Fees from the “synchronization” of music in television and film soundtracks, which may involve the license to use the music on commercial television, pay television, home video devices, or some combination thereof or in radio or television commercials.

There are other types of income—so-called grand rights uses—either on the living stage or by way of a television or film dramatization of a song (for example, “The Ballad of Billy Joe”) or the use of its title (for example, “Blue Velvet” or “Sea of Love”). There is also the use of lyrics or titles on materials such as greeting cards, balloons, lyric magazines, and T-shirts.

According to the NMPA study, the leading source of publishing income in 1998 was “distribution based income,” (i.e., “mechanical” royalties, which included “synchronization” revenues of \$2.75 billion) which accounted for 42% of the total . . . Performance royalties were 44%, and print accounted for \$2.9 billion in worldwide revenues.

The United States accounted for about 24% of the total worldwide, with \$1.594 billion in income. The breakdown was \$697 million in performance income, \$641 million in mechanicals and synchronization income, and \$233 million in print. Following the United States in publishing income were Germany, the United Kingdom, Japan and France.

For many years music publishing revenues have essentially been divided equally between the writer and publisher, a practice followed throughout most of the world. Thus, in most deals, 50 cents of every dollar collected by the publisher will be paid to the songwriter and 50 cents will be retained by the publisher. Theoretically. The two great exceptions to this split are “small performing rights” fees and co-publishing situations.

8.2.1 Small Performance Fees

Small performance fees are monies paid for the public performance of music in non-dramatic situations (e.g., concerts, radio broadcasts, Internet streaming), collected by performing rights “societies” (such as ASCAP, BMI, and SEASAC in the United States; GEMA in Germany; SACEM in France; JASRAC in Japan; and Performing Rights Society (PRS) in the United Kingdom). The U.S. societies, after deducting their own administration fees (which typically run in the neighborhood of 15% of collections), pay half of their income directly to the songwriter and half directly to the publisher. Generally speaking, the songwriter’s half is inviolate. The societies generally will not allow a songwriter to assign or voluntarily encumber this interest. Likewise the publisher will usually specify (at least in its first draft agreement) that it will not split its share of performance income with the songwriter.

8.2.2 Co-publishing Agreements

Songwriters with even modest bargaining power can negotiate the retention of a portion of the copyrights in their songs through what is known as a “co-publishing” agreement. Once a variation agreement that was an exception to the standard songwriter agreement (which would vest the entire copyright with the publisher), the co-publishing deal has come to be the new standard agreement between major music publishers and writers.

In its simplest and most common form, a co-publishing agreement provides for the co-ownership of specified songs by two or more parties, usually—but not necessarily—on a 50/50 percentage basis. There is a designated administrator of the songs and a split of the net income after payment of writer royalties. A co-publishing agreement may be described in terms of a 75/25 percentage overall split. This generalization refers to the fact that in a simple 50/50 percentage co-publishing agreement, the writer will generally receive 50 cents of every dollar as author of the song(s) and half of the net income (or another 25 cents) for a total of 75 percent of most sources of income.

8.3 PRINCIPAL TYPES OF AGREEMENTS

The number and variety of types of agreements utilized by publishers have increased substantially as the business has expanded and writers’ needs for publishers’ services have become increasingly diverse, but the single-song publishing agreement and exclusive songwriter agreement (ESWA) are still alive and well. The ESWA is common in situations where the writer is very reliant upon the publisher’s song plugger efforts to make the song happen. Likewise many writers who record their own material and seek to retain full ownership of their copyrights merely need a company to administer and collect; they will enter into administration agreements. Others will negotiate foreign subpublishing agreements in certain territories.

We have already mentioned the co-publishing agreement, which is discussed in more detail in Section 8.4. Following are some of the most common publishing agreements. It should be kept in mind that as patterns of exploitation evolve (e.g., increased incidence of downloads by individual song rather than albums, increased utilization of subscription radio rather than record purchases), the nature and economics of the various types of agreements discussed below will inevitably evolve to meet the new realities.

8.3.1 Songwriter Agreement

Whether for a single song, a number of specified songs, all songs written during an exclusive term, or some songs written during a specified term (for example, songs written and recorded by the writer as a recording artist), a songwriter agreement stipulates that the writer receive royalties of 50 percent of the income (with or without an advance against royalties). The songwriter transfers 100 percent of the copyright and administration rights to the publisher. Again, subject to the songwriter’s (or his/her heirs’) right to recapture the U.S. copyrights in the songs 35 years after the grant, the assignment of copyright is usually perpetual and worldwide. Where the songwriter is not also a recording/performing artist, advances will typically be smaller than those which are paid to writer/

performers, since exploitation possibilities will usually be less frequent. Few truly established songwriters will sign an ESWA; they will insist upon retaining all or part of their copyrights. This is especially true where a songwriter is a frequent collaborator with (and/or producer of) recording artists (e.g., Walter Afanasieff and Babyface).

8.3.2 Administration Agreement

Under an administration agreement, the songwriter retains 100 percent of the copyright, the publisher undertakes the same functions as under the co-publishing or participation agreement, and the publisher receives an “administration fee” (usually 15 to 25 percent of gross income, depending on the songwriter’s bargaining strength and the amount of advances the administrating publisher is called on to make). In contrast to the co-publishing/participation type of agreement, the administrator’s rights usually expire after a stated period—perhaps three years, or three years following the delivery of the final songs under the agreement, or until advances have been recouped or reimbursed. In the latter case, an outside termination date of a year or two following the term will be specified.

8.3.3 Collection Agreement

As in an administration agreement, the publisher acquires no ownership rights under a collection agreement, merely rights for a term of years (typically, three years). Under this type of agreement, however, the publisher generally does not undertake any affirmative obligation to exploit the songs, but merely agrees to handle the paperwork of registration, licensing, and collection. The collection fee under such an agreement will generally range from 5 to 15 percent of gross receipts, settling most often at around 10 percent. These percentages may vary if advances are involved. Many publishers believe that a collection agreement at less than 10 percent is uneconomical unless a catalog is very successful and its paperwork is well organized.

8.3.4 Foreign Subpublishing Agreement

Since well over half of music publishing income derives from records and TV and radio performances, and since territories such as the United Kingdom, Germany, Japan, France, Italy, the Netherlands, Scandinavia, Australia, and New Zealand yield hundreds of millions of dollars of publishing income, U.S. publishers enter into deals with subpublishers in these and other territories which are quite similar to U.S. administration agreements. These agreements will typically include provisions imposing additional artistic and economic controls on the subpublisher. For example, a typical subpublishing agreement may provide that the subpublisher will not license a so-called “local cover recording” (a recording of a song produced and recorded in the local territory by an artist other than the artist who originally recorded that song) unless the translated or adapted lyrics have been approved by the original publisher. There may be a prohibition against licensing songs for films and/or TV. Clauses may provide that timely payment of advances and royalties is “of the essence.” These

agreements tend to be for short terms—three years is typical. In all important territories, the majors have their own subsidiary or affiliated subpublishers.

8.4 NEGOTIATION OF A CO-PUBLISHING AGREEMENT

As in most other areas of entertainment law practice, there is no standard publishing agreement or approved form. As a practical matter, every major music publisher has a basic form, or series of forms to meet different needs, that create the basis of the publishing agreement negotiation. Some of these agreements are as few as five pages in length, others thirty or more.

Generally, as is the case in record deals, the artist wants a long commitment, few company options, large advances and royalties, and significant creative control. The company wants to minimize its commitment in an uncertain business, more options if there is success, lower advances and royalties, and control over most administration rights. Somewhere between these two positions will lie the negotiated agreement. As the co-publishing agreement is the one commonly negotiated today, following is a brief summary of some of the points that are addressed and negotiated. All such agreements have several basic deal points that go to the heart of the negotiation and the contract: (1) What rights are granted and for how long? (2) Which songs? (3) Who controls? (4) How much?

In most cases, the first draft of the deal submitted by the publishing company will provide that the publisher retains its rights to the songs covered by the agreement for the life of copyright (subject, of course, to the statutory right of termination available to the songwriter with respect to the U.S. copyright after 35 years.) However, in recent years, songwriter/ co-publishers have with increasing frequency sought (and now commonly secure) the right to recapture their songs at earlier dates—anywhere from 5 to 15 years after the end of the term of the agreement (sometimes conditioned upon repayment to the publisher of any unrecouped advances or advances plus, typically, a premium of 10% or 15% of the amount repaid, but frequently subject to an outside limit on the retention period, e.g., no longer than 15 years post-term). And, as is the case with the songwriter agreement, the publisher will undertake to administer the songs—that is, establish song files, register the copyrights, issue licenses, collect funds, take enforcement action against copyright infringements (and, likewise, defend infringement claims brought against the song), and account to and pay the songwriter.

The term of such a deal will usually run for an initial period lasting until the later of twelve months or delivery of one (or, less commonly, two) albums which contain a specified minimum number of songs which are subject to the deal (typically 80% of the songs) or, where the writer is not also a recording artist, delivery of a specified number of songs (typically, 8 to 12, although, where the publisher insists that a song must be recorded and commercially released in order to count against the writer's delivery commitment, the number will usually drop to 4 or 5), with two or three options in the company's favor to renew for like periods. Such agreements commonly provide for advances, either on a periodic basis (e.g., monthly, quarterly) or upon the occurrence of stated events (e.g., release of an album, completion of delivery commitment, attainment of specified "chart" positions). Advances are entirely dependent upon negotiating power; thus, an unknown but promising band might receive \$10 or \$15 thousand to sign, another \$20 to \$40 thousand upon securing a recording agreement with a major

company, another \$30 to \$40 thousand upon the initial commercial release of the first album under the deal, and, perhaps, “sales kickers” of \$25 to \$50 thousand when the album reaches sales of 250,000 units, 500,000, and so on. Optional album advances are typically 66⅔% of the earnings of the preceding album during the first 12 months following release, with minimum and maximum numbers which will escalate from those applicable to the first album. For example, if the first album advances to the point of release amounted to \$75,000, the optional minimum/maximum figures might be \$100,000–\$200,000, \$150,000–\$300,000, and \$200,000–\$400,000.

Typically, a deal of this type will be exclusive, although it is not uncommon to see deals which cover only compositions written *and recorded* by the writer. A publisher may seek to acquire every unpublished song the songwriter ever wrote, everything written during the term, and/or everything recorded or released within six months thereafter. The songwriter may seek to limit the scope by specifying that only certain prior compositions are to be included and that only songs recorded during the term are subject to the agreement, or that there will be a reversion back to the writer of songs unrecorded during the term. Many attorneys will argue that pre-existing songs (referred to in the vernacular as “back catalog”) should count against the writer’s delivery commitment; a frequent compromise is to count those songs which are first recorded and released during the term of the agreement, up to a limit of perhaps two or three such songs in any one contract period. In some instances, additional advances may be paid for songs written by the writer but recorded only by third parties, but in such cases, advances are usually keyed to chart or sales success.

Territory is open to negotiation. However, if the publisher is paying a significant advance, it will almost always insist upon world-wide rights. A prior sub-publishing deal may, however, restrict the territory to, for example, “The Universe excluding Papua New Guinea.” (In the new world of the Internet, of course, split rights deals present hitherto-undreamed-of complications, since the situs of an Internet transaction has yet to be determined; i.e., if a German computer downloads a recording from a U.S. site, will the German publisher collect the mechanical royalty or will it be collected by the U.S. publisher?)

Administration rights are almost always exclusive to the publisher in these types of deals. However, the contract may impose restrictions regarding the exercise of certain rights, requiring the prior approval of or consultation with the writer. Many of these are creative issues that will have varying degrees of importance to different writers. For example, some writers love to have their songs in motion pictures and/or commercials, while others are hostile to the concept. Certain writers want prior approval on changes in lyrics, change of title, use of the title in a motion picture, or use in certain types of commercials (e.g., alcohol, tobacco, firearms, personal hygiene products.) A songwriter might wish to control or have rights with respect to the “first use” mechanical license (which is a condition precedent to the ability of third parties to release “cover recordings.”). Writers will generally prohibit commercial use of “demo” recordings without their consent, and they will want approval over name and likeness usages. Generally publishers are willing to grant some restrictions on usage, provided they do not impede their ability to make reasonable use of the songs and recoup their advances. Restrictions and controls in publishing agreements are further discussed in Section 8.5.

Income from the United States in a co-publishing agreement generally follows

the 75/25 percentage split, with the songwriter receiving 50 percent of mechanical income and synchronization licenses and the 50 percent songwriters' share of performance income which is paid directly by the performing rights society. Income from print sales is generally subject to a different royalty split. After payment of writer royalties, there are certain other items taken "off the top" which may be negotiable. Some publishers will ask for an administration fee (5 to 10 percent, or more). In almost all cases the costs of copyright registration, lead sheets, collection of income, and making approved demonstration records ("demos") will be deductible. After a net income figure is ascertained, including foreign income as discussed in Section 8.4, this amount is split between the publisher and the songwriter's "publishing designee," most commonly on the agreed 50/50 basis.

8.5 COMPUTATION OF FOREIGN INCOME ("RECEIPTS" VERSUS "AT THE SOURCE")

In publishing parlance, a deal can be either a "receipts" deal or a "source" deal. Under a receipts deal, the division of income between publisher and writer (or publisher and co-publisher/participant) is based on what is collected by the original publisher from subpublishers and other licensees, not necessarily on all the income generated by specific uses.

Most music publishing income, whether generated within or outside of the United States, is initially handled by mechanical and performing rights collecting societies. We have already mentioned performing rights societies. There are *mechanical* rights licensing societies as well. In the United States, the Harry Fox Agency, Inc. (not really a society but rather a subsidiary of the National Music Publishers Association), represents more than 21,000 publishers for this purpose, while STEMRA (the Netherlands), SDRM (France), NCB (Scandinavia), and other national societies perform the same function elsewhere around the world. Foreign income is processed and paid over to local subpublishers, who deduct their administration fees and remit the balance to the originating publisher in the United States. Under a *receipts* deal, the U.S. publisher would in turn deduct its publisher/administration/collection percentage (whichever is applicable) and pay over the remainder to the songwriter (or co-publisher or participant). Under a *source* deal, by contrast, the fee of the foreign subpublisher is absorbed by the originating U.S. publisher out of the U.S. publisher's percentage of income.

Clearly, the income resulting to the songwriter/co-publisher/participant can be reduced considerably under a receipts deal. Indeed, in the hands of an unscrupulous publisher, application of the receipts concept can have an effect that is little short of catastrophic. For example, under a receipts deal providing for the publisher to keep 25 percent of its receipts and pay over 75 percent to the writer/co-publisher, if the original publisher subpublishes to a foreign affiliate under an agreement allowing that foreign affiliate to keep 25 percent of gross receipts, and that foreign affiliate in turn subpublishes to affiliates in other foreign countries under agreements allowing *them* to retain 25 percent of gross receipts, the following is the result:

\$1.00	collected by ultimate subpublisher.
.75	remitted to intermediate subpublisher.

.5625	remitted to original publisher.
.4218	paid to songwriter/co-publisher/ participant.

If the client's bargaining strength is such that the publisher is able to insist on a receipts deal (which is the case in most songwriter and co-publishing agreements today), the agreement should, at least, specify the maximum percentage that may be retained by the publisher's foreign subpublishers for the purpose of calculating the ultimate division of income.

8.6 TYPICAL REQUIREMENTS AND CONTROLS

8.6.1 Administrative and Creative Controls

Music publishers do not have a completely free hand; although they are not generally fiduciaries (see Sec. 5.2.1), they are fiduciaries when it comes to accounting for (and, where appropriate, paying) monies collected by them. In any case, it is always a good idea to spell out in some detail the obligations and restrictions under which the publisher (or subpublisher) is to operate. We have already discussed a typical restriction vis-à-vis "local cover records." Here are some others:

1. No change to the English-language title and/or lyric to a composition, and no change to the melody or rhythmic structure except to the extent necessary to accommodate the syllabic requirements of foreign languages.
2. No license of grand rights and/or title uses for films, TV, or stage without prior consent.
3. No synchronization licenses for NC-17-rated films or equivalent TV programs, for commercials, or for political advertisements (indeed, some powerful writers impose a total prohibition on such licensing without prior consent, although the vast majority agree to routine background [nonvisual, usually instrumental] licenses for episodic TV, as being minor uses for little money).
4. In subpublishing situations, no issuance of a mechanical license for a cover record for a stated period after the release of the artist-songwriter's own record of a song (in rare cases, an artist-songwriter may prohibit a publisher from issuing a negotiated U.S. mechanical license for a stated period after such release, in which case any prospective record manufacturer is remitted to the compulsory license procedure under Section 115 of the Copyright Act).
5. Prior approval of uses of the writer's likeness and/or biographical material (although the publisher will generally insist that any likeness and/or material approved for use by a song-writer-artist's record company is to be deemed approved for use by the publisher [subject to the record company's consent if the materials are the property of, or subject to the control of, the record company]).
6. A requirement that the publisher issue licenses in accordance with the so-called "controlled compositions" clause in any recording contract to which an artist/songwriter may be or become a party. Record companies commonly insist on licenses at three-fourths of the minimum U.S. statutory mechanical copyright royalty rate (in 2000, the greater of 1.45 cents per minute or 7.55 cents for the first five minutes of playing time) on songs written by their recording artists, with no payment on so-called free goods (records shipped for resale but not billed to the customer; for example, 100 LPs are shipped to a customer but the customer will be billed for only 85) and no payment for

use of songs in promotional videos (and, sometimes, no payment if such videos are licensed for a profit and/ or included in home video cassettes). In return, the publisher may seek to establish minimum standards, with the right to reimburse itself from the artist-songwriter's royalties to the extent that collections fall short of the publisher's contractual expectations. For example, a publisher might say that if less than 80% of the songs on an album are subject to the agreement, the advance applicable to that album will be reduced pro rata, so that if an album contains 12 songs, but only 6 are subject to the agreement, the advance will be multiplied by a fraction, the numerator of which is 6 and the denominator of which is 9.6 (i.e., 80% of 12.)

While no music publisher will guarantee a particular level of exploitation and/ or success with respect to any specific song, publishers will sometimes agree to relinquish rights with respect to unexploited songs. Thus, in the songwriter agreement or a co-publishing agreement, the publisher might agree that any song not embodied on a recording released commercially in the United States during the term or within two years thereafter will revert to the songwriter/co-publisher/ participant. In some instances, reversion may be deferred until all advances have been recouped, if later than the two-year date. Such clauses are quite typical in U.K. agreements, as a result of *Schroeder v. Macaulay* (see Section 6.6.1).

8.6.2 The Publisher's Obligations

A songwriter desires two basic services from a music publisher: that the song be successfully exploited in all available markets and that the publisher provide a full and accurate accounting of revenues and resulting royalties. Both services are more easily described in the abstract than defined in strict, enforceable language. The following sections explore the elusive obligations of the music publisher, in terms of duties both express and implied arising from the publisher-songwriter agreement.

8.6.2.1 *The Obligation to Exploit*

As with many different types of agreements in the entertainment industry, music publishing contracts usually contain clauses embodying variations on the theme that earnings from compositions are inherently speculative, that the publisher does not guarantee any particular level of success, and, incidentally, that the publisher is not really obligated to do *anything* except the customary housekeeping details (registration of copyright, setting up of song files, and so on), and accounting and payment for royalties if compositions are exploited. In this regard, the contract in the *Schroeder* case in Section 6.6.1, is fairly typical of U.S. contracts as well as English contracts in lacking specific affirmative obligations on the part of the publisher. Under what circumstances and to what result can an author allege that the publisher is a fiduciary with special duties to the writer and, having failed to fulfill its duties, has lost its right to enforce the agreement?

Subsequent to the *Schroeder* decision, many English publishers adopted the custom of providing in their agreements that songs not exploited by two years following the end of the term would revert to the songwriter, especially in cases where advances and other commitments were less than robust. Such provisions are not uncommon in American agreements but are not routinely agreed to by publishers.

8.6.2.2 *The Obligation to Account and Pay*

The payment to writers, monitored by proper accounting procedures, is a primary responsibility of any music publisher. As the *Nolan* case in Section 6.2 illustrates, a publisher may not, absent express contractual provisions so permitting, sell its rights in a manner that diminishes the writer's contractual expectancy. By the same token, the writer is more than a mere creditor; as the *Waterson* case illustrates, a purchaser of a bankrupt catalog must continue to account to and pay the writers, who have an equitable lien on the copyrights. However, in reading the *Waterson* case, it is important to keep in mind that it was decided during an era when sheet music and song plugging were the primary exploitation vehicles. As *Zilg v. Prentice-Hall, Inc.* and *Third Story Music v. Waits* (both in Sec. 5.2.2) indicate, the obligation to exploit is not open-ended, and the level of effort will be reduced by the presence of substantial advances.

In re Waterson, Berlin & Snyder Co., 48 F.2d 704 (2d Cir. 1931)

HAND, CIRCUIT JUDGE

The bankrupt was a music publisher. Prior to bankruptcy it had purchased from the petitioner Fain, and others, musical compositions, including words and music, under agreements all of which were identical except as to royalty rates and advance royalties. There were agreements made with twenty-two such composers.

The provisions of the royalty contracts important for consideration are illustrated by the following taken from the contract with one of the composers:

For the Consideration of the sum of One dollar, in hand paid to Jimmie Monaco, party of the first part, by Waterson, Berlin & Snyder Co., party of the second part, the receipt whereof is hereby acknowledged, the said party of the first part does hereby sell, set over and transfer unto the said party of the second part, its successors and assigns, a certain song or musical composition, including the words and music thereof, bearing the title "You Went Away Too Far and Stayed Away Too Long" or any other title, name or style the said party of the second part may at any time give to said composition, together with the right to take out a copyright for or upon the same, and each and every part thereof, including the words and music, to the full extent in all respects as the party of the first part could or might be able to do if these presents had not been executed.

And The Said Party of the second part hereby covenants and agrees in the event of the publication by it of the said song or musical composition, to pay to the party of the first part 1 cents upon each and every ordinary printed pianoforte copy sold and paid for of the said song or musical composition hereafter sold by the party of the second part in the United States, except as hereinafter mentioned or specified, such payment to be made only upon a full and complete compliance with all and singular the terms and conditions herein contained on the part of the party of the first part. And it is hereby expressly agreed that out of the first royalties to which the party of the first part may be entitled by or under the terms of this agreement the sum of \$500.00 dollars, paid as advance Royalty, shall be deducted. . . .

And The Party of the first part hereby covenants and represents to Waterson, Berlin & Snyder Co., for the purpose of inducing it to accept an assignment of said song and musical composition, and to enter into and execute this agreement and make the payment above mentioned, that he has not heretofore sold, mortgaged, hypothecated, or otherwise disposed of or incumbered any right, title or interest in or to said song or musical composition or any part thereof, and has not made or entered into an agreement with any person, firm or corporation in any wise affecting

the said song, words or musical composition, and that he is the author and composer and absolute owner thereof, and has the full right, power and authority to make this assignment and agreement.

We agree to pay 33/13% jointly of all revenue received from Mechanical reproduction less any expense incurred.

Settlement On This Agreement shall be made semi-annually within thirty (30) days after the first days of January and July, respectively, during the whole term in existence of the copyright of said song and musical composition, according to such correct and proper statements of account as may be available on such days. Any such payment when made and accepted shall operate as a release to the said party of the second part, his successors or assigns, from any further claim or liability for any royalty up to the date thereof.

[After the publishing company went bankrupt, the trustee proposed to sell its compositions, free from royalty claims, whereupon the writers filed a petition] alleging that in entering into their contracts they had relied on the reputation and organization of Waterson, Berlin & Snyder Company as leading musical publishers to popularize their publications and to increase sales of the songs, that the bankruptcy of the publishers had disabled them from further performance of the contracts to publish, and that, if the receiver was permitted to sell the compositions and copyrights free from royalty claims, purchasers would publish them without obligation to pay further royalties to the composers, who would thus be deprived of all revenue from their productions. The petitioners prayed for an order directing the receiver or trustee in bankruptcy to reassign the copyrights to them, or, in the alternative, not to sell without provision for the payment of future royalties to the composers, and for other and further relief.

The District Judge, though finding that each agreement involves “a transfer, absolute on its face, in exchange for a covenant by the publisher for the payment of certain agreed royalties,” held that the “royalty contracts . . . involve such personal elements of trust and confidence that they are not assignable without the consent of the parties,” and that they may “be rescinded by the composers when the publisher, as here, is unable or definitely refuses to fulfill his obligations thereunder.” He therefore granted the petition and ordered that the royalty contracts be rescinded and that the trustee in bankruptcy should reassign each copyright to the composer upon the return to the bankrupt estate of any unearned advance royalties paid thereon to such composer.

The trustee has taken this appeal, which raises the questions (1) whether the trustee has a right to sell the copyrights at all; (2) whether, if he has a right to sell them at all, he may sell them free and clear of royalties.

. . . We find difficulty in taking the view adopted by the District Judge . . . because it disregards the unqualified grant to the publisher, and because it appears to give no weight to the labor, skill, and capital which a publisher expends in putting a song on the market. The expense of maintaining an organization, of building up a business and making it available to the composers of songs, as well as the more direct cost of making plates, advertising, and distributing the songs so as to give them popularity, largely go for nought if a rescission of the contracts be ordered on the sole condition that the composers return unearned advance royalties. Such a disposition seems specially inequitable where in the case of some, if not many, of the songs there are no unearned advances whatever . . .

In the case at bar there was an agreement to pay “33/13% . . . of all revenue received from Mechanical reproductions less any expenses incurred,” as well as

to pay one cent upon each copy of the songs sold. Such a provision involved an implied covenant to work the copyright so far as was reasonable under all the circumstances. Under the doctrine of the Werderman Case [an earlier precedent], any purchaser of the copyrights who took with notice of such a covenant would take them subject to it, and, we believe, also subject to payment of royalties, without which the obligation to work the copyright would be futile. . . .

Courts in the United States have enforced rights resembling an equitable servitude binding on a third party who has acquired personal property from one who is under a contract to use it for a particular purpose or in a particular way. . . .

In both [the U.K. and the U.S.], where there has been a conveyance upon an agreement to pay the grantor sums of money based upon the earnings of property transferred, the courts have implied a covenant to render the subject-matter of the contract productive—if the property was a mine, a covenant to mine, quarry, or drill; if it consisted of a patent or copyright, a covenant to work the patent or copyright. . . .

The difference between the English and American decisions lies in the fact that our courts have allowed rescission where there has been a failure on the part of the grantee or assignee to act in accordance with his obligation to render the property conveyed productive, while the English courts have refused to allow it except for fraud. . . .

To allow rescission, the default must be such that it “destroys the essential objects of the contract,” *Rosenwasser v. Blyn Shoes, Inc.*, 246 N.Y. at page 346, 159 N. E. 84, 85, or it “must be so fundamental and pervasive as to result in substantial frustration.” *Buffalo Builders’ Supply Co. v. Reeb*, 247 N. Y. at page 175, 159 N. E. 899, 901.

In our opinion a rescission could only be decreed in the case at bar if there had been a gross failure to work the copyrights, which has nowhere been indicated. Moreover, such a drastic remedy as rescission has often been withheld, and an equitable lien upon the subject-matter involved has been substituted even where rescission might have been allowed. This is illustrated in various cases where conveyances of land have been made in consideration of maintenance and support. Rescission has sometimes been granted because of a fundamental breach of the contract on the part of the grantee. . . . But in other cases the relief afforded has been through the imposition of an equitable lien upon the property conveyed, enforceable at the suit of the grantor. . . .

In the case at bar, within a month after August 1, 1929, which was the date when royalty payments became due under the contract, and only about three weeks after the adjudication, the receiver called for bids and attempted to sell the copyrights. Any default in working the copyrights had not been long enough in itself to justify a rescission and the proposed sale cannot be said to have been an act that would “result in substantial frustration” of the composer’s rights upon the record before us. We can see no justification for decreeing rescission unless the transfer of title to the bankrupt, “its successors and assigns,” though absolute in form, be held as naught.

It may be that the songs, or some of them, are worth much more than when they were copyrighted, and it is not unlikely that a large part of their value is due to the labor and expense laid out upon them by the bankrupt as entrepreneur. The trustee in bankruptcy ought to be able to retain for the creditors these contributions to the copyrighted songs, as well as any fortuitous increment, if the

right of the composers to receive royalties from working the copyrights can be reasonably safeguarded.

Whether or not the copyrights may have become burdened with equities in favor of the composers, their title is in the bankrupt estate. The assignments were absolute, and Waterson, Berlin & Snyder Company would have had no right to take out the copyrights had it not been the “proprietor” within the meaning of the Copyright Act. . . .

In our opinion there is a middle course between the extreme doctrine of [earlier English cases] and the [later] cases which have allowed rescission for failure to work a patent, which we should take in the circumstances here. In view of the absolute terms of the transfer, the presence of the word “assigns” in the instrument of conveyance, and the statutory requirement that one who takes out a copyright must be the “proprietor,” we see no reason to imply a covenant that Waterson, Berlin & Snyder Company must itself publish the songs. The composers cannot object if the trustee sells the copyrights. . . .

But it is a different matter to say that the sale of the copyrights should be free from all equities on behalf of the composers. In ordinary circumstances, and between the original parties, it may be that the only remedy of the composers would be an action at law for breach of the promise to pay royalties. Even between the original parties, rescission would be granted at the suit of the composers, if the publisher failed to work the copyrights in good faith, so that they might so far as possible yield royalties and thus afford the measure of compensation agreed upon. But, even where the publisher failed to work the copyrights, it could not be said that there would be actually no remedy at law, for the courts allow actions at law because of failure to observe such implied covenants. . . . The damages for the breach of such a covenant, however, would necessarily be determined by estimates that at best could be no more than speculative substitutes for the definite royalties prescribed by the contracts. Accordingly a court of equity would decree a rescission where the breach was so fundamental as to amount to frustration, because the remedy at law would be inadequate. . . . A restrictive covenant affecting the use is imposed in such cases, and rescission is granted for failure to observe it.

It is true that the royalties on the songs are definitely provided to be paid only “in the event of the publication” by Waterson, Berlin & Snyder Company, but, where the words of assignment of the musical compositions are absolute, it is unreasonable to suppose that there may be no exploitation of the songs, except by Waterson, Berlin & Snyder Company. It seems to us equally unreasonable to suppose that the trustee may sell them free from all rights of the composers and thus deprive the latter of the only means of fixing the royalties which they have been promised. In our opinion, while the copyrights may be sold by the trustee, they should be sold subject to the right of the composers to have them worked in their behalf and to be paid royalties according to the terms of the contracts. . . .

We can discover no justification for decreeing a rescission . . . because the facts here do not warrant a remedy so extreme and so disastrous to the bankrupt estate. If the purchaser at the trustee’s sale should fail to work any copyright that he purchased, when it was reasonably practicable to do so, rescission doubtless might be granted at the instance of the composer in some future suit. If the trustee shall be unable within a reasonable time to obtain a purchaser who will take title subject to the terms mentioned, the District Court should direct a reassignment of any copyright thus affected upon repayment of any unearned

advance royalties upon such copyright. Rescission ought to be allowed only where there is manifestly no purpose to render the copyright productive to the composer. . . .

If a right to rescind the contract may be granted because of a fundamental breach of the implied obligation to work the copyrights, surely a lien may be imposed for royalties accruing through the use of the copyright by a subvendee, for in no other way can the right of a composer to receive royalties be preserved in a case where the publisher has parted with title. . . .

The order of the District Court is reversed, and the proceeding is remanded, with directions to enter an order in accordance with the views expressed in this opinion.

NOTES

1. In *Harris v. Emus*, 734 F.2d 1329 (9th Cir. 1984), the foregoing case was distinguished, the court holding that a mere license would not be transferable in bankruptcy.

2. Publishers and virtually all other companies in entertainment who account to third parties for royalties seek by contract to shorten the otherwise available statute of limitations on accounting matters. Rather than be subject to various state statutes of limitation which would force the publisher to both keep all accounting records and be exposed to liability for six years or more, many agreements will limit to one to three years the period of time within which the royalty participant may object to an accounting, audit the books and records of a publisher, or initiate an action against the publisher. The provisions are common and have been upheld. See *Elliott-McGowan Productions v. Republic Productions*, 145 F. Supp. 48 (S.D.N.Y. 1956).

3. Such a clause may provide: "You or a Certified Public Accountant on your behalf shall have the right to audit our books and records as to each statement for a period of two (2) years after such statement is received or deemed received as provided below. Legal action with respect to a specific accounting statement or the accounting period to which such statement relates shall be barred if not commenced in a court of competent jurisdiction within three (3) years after such statement is received, or deemed received as provided herein."

4. For additional readings and resources, the following books should be consulted:

(1) Randy Poe, *Music Publishing: A Songwriters Guide* (Cincinnati: Writer's Digest Books, 1990). A well-organized and insightful overview of the music publishing business that addresses such topics as sources of publishing income, how music publishing companies work, and how to start a publishing company.

(2) Donald Farber, ed., *Entertainment Industry Contracts Negotiating and Drafting Guide* (New York: Matthew Bender, 1986). A four-volume set of entertainment industry agreements with detailed commentary of each paragraph in the margins. Songwriters and music publishers covered in Chapter 168 by Evan Medow.

(3) Jeffrey Brabec and Todd Brabec, *Music, Money and Success*, 2d Ed. (New York: Schirmer Books, 2000).

(4) Mark Halloran, ed., *The Musician's Business and Legal Guide* (Englewood Cliffs, N.J.: Prentice-Hall, 1991).

(5) Al Kohn and Bob Kohn, *Kohn on Music Licensing*, 2d Ed. (Englewood Cliffs, NJ: Aspen Law & Business 1996). Like the Passman book listed below, indispensable to any practitioner in this area. (Comes with disk.)

(6) Donald S. Passman, *All You Need To Know About The Music Business*, Revised 4th ed. (New York: Simon & Schuster, 2000).

(7) Simon Garfield, *Money for Nothing: Greed and Exploitation in the Music Industry* (London: Faber and Faber, 1986). A fascinating, if somewhat one-sided series of stories involving the legal and business side of the music industry in the United

Kingdom. Topics include three of the major U.K. publishing disputes discussed in Section 6.6.1 (*Schroeder O'Sullivan, and Elton Hercules John*).

(8) Sidney Shemel and M. William Krasilovsky, *This Business of Music*, 8th ed. (New York: Billboard Publications, Inc., 2000). A classic survey of the music business done in a practical way. Part Two (Chapters 15–32) is devoted to music publishing.

(9) Howard Siegel, ed., *Entertainment Law* (Albany: New York State Bar Association, 1989). A collection of articles by experts in the various areas of entertainment law. Music publishing is covered in Chapter 2 by Michael J. Perlstein.

(10) Jeffrey L. Graubart, “Self-Publishing and the Songwriter/Music Publisher,” 8 *Ent. Law Repr.* 3 (September 1986), and Donald E. Biederman, “Self-Publishing, Etc.: A Rejoinder,” 8 *Ent. Law Repr.* 6 (October 1986). Concerning the advantages and disadvantages of functioning as one’s own music publisher instead of dealing with an outside publisher.

8.7 PERFORMING RIGHTS

After mechanical income, radio and television performances are the second greatest source of income to music publishers. For almost 40 years, there has been a steady drumfire of litigation between broadcasters and music publishers, which culminated in (and continues after) the *Buffalo Broadcasting* case.

8.7.1 Blanket Licensing

Blanket licensing is the predominant mode under which radio and television stations obtain the right to utilize music. In return for an annual fee ranging from a few hundred dollars to a percentage of the user’s revenues, the user obtains the right to use the licensor’s entire catalog as and when it pleases. The blanket license has been the subject of considerable litigation, the following case being perhaps the most widely known recent example.

Buffalo Broadcasting Co. v. ASCAP, 744 F.2d 917 (2d Cir. 1984), cert. denied, 469 U.S. 1211 (1985)

NEWMAN, CIRCUIT JUDGE

[The Southern District enjoined ASCAP’s and BMI’s blanket licensing of music in programing “syndicated” to local television stations as an unreasonable restraint of trade in violation of Section 1 of the Sherman Antitrust Act. A “blanket” license permits the licensee to perform publicly any musical composition in the repertory of the licensor. Finding the evidence insufficient as a matter of law, the Second Circuit reversed.]

The [plaintiff class] includes approximately 450 owners who, because of multiple holdings, own approximately 750 local television stations. . . . Since 1949 most [of these] stations have been represented in negotiations with ASCAP and BMI by the All-Industry Television Station Music License Committee (“the All-Industry Committee”). . . .

The subject matter of this litigation is music transmitted by television stations to their viewer-listeners. Television music is classified as either theme, background, or feature. Theme music is played at the start or conclusion of a program and serves to enhance the identification of the program. Background music accompanies portions of the program to heighten interest, underscore the mood, change the pace, or otherwise contribute to the overall effect of the program.

Feature music is a principal focus of audience attention, such as a popular song sung on a variety show.

More particularly, we are concerned with the licensing of non-dramatic performing rights to copyrighted music [pursuant to] 17 U.S.C. 106(4) (1982). Also pertinent to this litigation is the so-called synchronization right, or “synch” right, that is, the right to reproduce the music onto the soundtrack of a film or a videotape in synchronization with the action. The “synch” right is a form of the reproduction right also created by statute as one of the exclusive rights enjoyed by the copyright owner. *Id.* 106(1). The Act specifically accords the copyright owner the right to authorize others to use the various rights recognized by the Act, including the performing right and the reproduction right, *id.* 106, and to convey these rights separately, *id.* 201(d)(2). The Act recognizes that conveyance of the various rights protected by copyright may be accomplished by either an exclusive or a non-exclusive license. 101.

Music performed by local television stations is selected in one of three ways. It may be selected by the station itself, or by the producer of a program that is sold to the station, or by a performer spontaneously. The stations select music for the relatively small portion of the program day devoted to locally produced programs. The vast majority of music aired by television stations is selected by the producers of programs supplied to the stations. In some instances these producers are the major television networks, but this litigation is not concerned with performing rights to music on programs supplied to the local stations by the major networks because the networks have blanket licenses from ASCAP and BMI and convey performing rights to local stations when they supply network programs. Apart from network-produced programs, the producers of programs for local stations are “syndicators” supplying the stations with “syndicated” programs. Most syndicated programs are feature length movies or one-hour or half-hour films or videotapes produced especially for television viewing by motion picture studios, their television production affiliates, or independent television program producers. However, the definition of “syndicated program” that was stipulated to by the parties also includes live, non-network television programs offered for sale or license to local stations. These syndicated programs are the central focus of this litigation. The third category of selected music, songs chosen spontaneously by a performer, accounts for a very small percentage of the music aired by the stations. These spontaneous selections of music can occur on programs produced either locally or by the networks or by syndicators.

Syndicators wishing to include music in their programs may either select pre-existing music (sometimes called “outside” music) or hire a composer to compose original music (sometimes called “inside” music). Most music on syndicated programs, up to 90% by plaintiffs’ estimate, is inside music commissioned through the use of composer-for-hire agreements between the producer and either the composer alone or the composer and a corporation entitled to contract for a loan of the composer’s services. Composer-for-hire agreements are normally standard form contracts. The salary paid to the composer, sometimes called “up front money,” varies considerably from a few hundred dollars to several thousand dollars. The producer for whom a “work made for hire” was composed is considered by the Act to be the author and, unless the producer and composer have otherwise agreed, owns “all of the rights comprised in the copyright.” . . . However, composer-for-hire agreements for syndicated television programs typically pro-

vide that the producer assigns to the composer and to a music publishing company the performing right to the music composed pursuant to the agreement.

When the producer wishes to use outside music in a film or videotape program, it must obtain from the copyright proprietor the “synch” right in order to record the music on the soundtrack of the film or tape. “Synch” rights vary in price, usually within a range of \$150 to \$500. When the producer wishes to use inside music, as is normally the case, it need not obtain the “synch” right because it already owns this right by virtue of the “work made for hire” provision of the Act.

Whether the producer decides to use outside or inside music, it need not acquire the television performing right since neither the making of the program nor the selling of the program to a television station is a “performance” of the music that would require a performing right. The producer is therefore free either to sell the program without the performing right and leave it to the station to obtain that right, or to obtain the performing right from the copyright proprietor, usually the composer and a publishing company, and convey that music performing right to the station along with the performing rights to all other copyrighted components of the program. If the producer obtains the music performing right from the copyright proprietor and conveys it to the station, the transaction is known as “source licensing” or “clearance at the source.” If the station obtains the music performing right directly from the copyright proprietor, the transaction is known as “direct licensing.”

The typical arrangement whereby local television stations acquire music performing rights in syndicated and all other programs is [via] a blanket license permitting television performance of all of the music in the [societies’] repertoires . . . for a fee normally set as a percentage of the station’s revenue. That fee, after deduction of administrative expenses, is distributed to the copyright proprietors on a basis that roughly reflects the extent of use of the music and the size of the audience for which the station “performed” the music. The royalty distribution is normally divided equally between the composer and the music publishing company.

In addition to offering stations a blanket license, ASCAP and BMI also offer a modified form of the blanket license known as a “program” or “per program” license. The program license conveys to the station the music performing rights to all of the music in the ASCAP or BMI repertory for use on the particular program for which the license is issued. The fee for a program license is a percent of the revenue derived by the station from the particular program, *i.e.*, the advertising dollars paid to sponsor the program.

The blanket license contains a “carve-out” provision exempting from the base on which the license fee is computed the revenue derived by the station from any program presented by motion picture or transcription for which music performing rights have been licensed at the source by the licensor, *i.e.*, ASCAP or BMI. The program license contains a more generous version of this provision, extending the exemption to music performing rights licensed at the source *either* by ASCAP/BMI *or* by the composer and publisher. Thus, for film and videotaped syndicated programs, a station can either obtain a blanket license for all of its music performing rights and reduce its fee for those programs licensed at the source by ASCAP/BMI, or obtain program licenses for each of its programs that use copyrighted music and avoid the fee for those programs licensed at the source by either ASCAP/BMI or by the composers and publishers. . . .

[The Court then proceeded to review the decades-long history of litigation between the broadcasters and other users of music and the societies, which had resulted in decisions and consent decrees limiting the rights which could be obtained by the societies.] [O]perators of movie theaters . . . successfully challenged the blanket license they were obliged to take from ASCAP in order to exhibit films with music from the ASCAP repertory. *Alden-Rochelle, Inc. v. ASCAP*, 80 F. Supp. 888 (S.D.N.Y. 1948). See also *M. Witmark & Sons v. Jensen*, 80 F. Supp. 843 (D. Minn. 1948), *appeal dismissed*, 177 F.2d 515 (8th Cir. 1949). [In 1950, the ASCAP consent decree was modified so that it] prohibits ASCAP from acquiring exclusive music performing rights, limiting it solely to non-exclusive rights. ASCAP is also prohibited from limiting, restricting, or interfering with the right of any member to issue to any user a non-exclusive license for music performing rights [and must] offer to any television or radio broadcaster a program license. ASCAP is also required “to use its best efforts to avoid any discrimination among the respective fees fixed for the various types of licenses which would deprive the licensees or prospective licensees of a genuine choice from among such various types of licenses.” Finally, in the event license applicants believe they are being overcharged, the decree permits any applicant for a blanket or program license to apply to the District Court for the determination of a “reasonable” fee, and in such a proceeding, “the burden of proof shall be on ASCAP to establish the reasonableness of the fee requested by it.”

[After local television stations challenged ASCAP’s blanket rate in 1951, the parties agreed in 1954] to set the per program license rate at 9% of the revenue of programs using ASCAP music and to reduce the blanket license rate to 2.05% of total station revenue, less certain deductions. . . .

In 1961 local television stations requested from ASCAP a modified blanket license that excluded syndicated programs. When ASCAP refused, the stations sued in the consent decree court to require ASCAP to issue such a license. The District Court declined to require such a license, *United States v. ASCAP (Application of Shenandoah Valley Broadcasting, Inc.)*, 208 F. Supp. 896 (S.D.N.Y. 1962), *aff’d*, 331 F.2d 117 (2d Cir.), *cert. denied*, 377 U.S. 997, 84 S.Ct. 1917, 12 L.Ed.2d 1048 (1964). In affirming, this Court observed that if the blanket license was serving to restrain trade unreasonably in violation of the antitrust laws, the stations’ remedy was to urge the Department of Justice to seek modification of the consent decree or to initiate a private suit. 331 F.2d at 124.

Rather than press an antitrust challenge, the stations initiated another round of fee determination pursuant to the consent decree. That litigation, known as the *Shenandoah* proceeding, was settled upon the parties’ agreement that the form of blanket and program licenses then in use “may be entered into lawfully by each party to this proceeding” and that the rate for the blanket license was reduced to 2% of 1964–65 revenue plus 1% of incremental revenue above that base. *United States v. ASCAP (Application of Shenandoah Valley Broadcasting, Inc.)*, Civ. No. 13–95 (S.D.N.Y. July 28, 1969) (final order). The All-Industry Committee reported to the stations that this rate reduction would save them approximately \$53 million through 1977, an estimate that was exceeded because of the rapid growth of station revenue.

Thereafter, while the local television stations took blanket licenses from ASCAP and BMI, the legality of the license was challenged by a network licensee, CBS. [The Second Circuit ultimately ruled] that the blanket license had

not been proven to be a restraint of trade. *CBS, Inc. v. ASCAP*, 620 F.2d 930 (2d Cir. 1980), *cert. denied*, 450 U.S. 970, 101 S.Ct. 1491, 67 L.Ed.2d 621 (1981) . . .

. . . [In the instant case, the District Court injunction] bars ASCAP and BMI from offering either blanket or program licenses and also prohibits them from conveying performing rights with respect to such programs on any basis at all. . . .

Is There a Restraint?

We think the initial and, as it turns out, dispositive issue on the merits is whether the blanket licensing of performing rights to the local television stations has been proven to be a restraint of trade. The Supreme Court noted that “the necessity for and advantages of a blanket license for (television and radio networks) may be far less obvious than is the case when the potential users are individual television or radio stations. . . .” [*CBS v. ASCAP*] 441 U.S. at 21, 99 S.Ct. at 1563. However, for several reasons, it does not follow that the local stations lose simply because the CBS network lost [in its attack upon the blanket license.]. First, the Supreme Court’s observation concerned the relative pro-competitive effects of the blanket license for a network compared to local stations. Even though the pro-competitive effects may be greater when the licensees are local stations, those pro-competitive effects do not necessarily outweigh the anti-competitive effects. Second, the Supreme Court’s comparative statement does not determine the threshold issue of whether the blanket licensing of performing rights to local television stations is a restraint at all. The fact that CBS did not prove that blanket licensing of networks restrained competition does not necessarily mean that blanket licensing of local stations may not be shown to be a restraint. Finally, [this case involves] a ruling that the local stations proved the existence of a restraint.

. . . [T]rade is restrained, sometimes unreasonably, when rights to use individual copyrights or patents may be obtained only by payment for a pool of such rights, but that the opportunity to acquire a pool of rights does not restrain trade if an alternative opportunity to acquire individual rights is realistically available [and] a plaintiff will not be held to have an alternative “available” simply because some imaginable possibility exists . . . “An antitrust plaintiff is not obliged to pursue any imaginable alternative, regardless of cost or efficiency, before it can complain that a practice has restrained competition.” . . .

. . . [In] *NCAA v. Board of Regents of the University of Oklahoma*,—U.S.—, 104 S.Ct. 2948, 82 L.Ed.2d 70 (1984) . . . the Court was . . . concerned, as we are here, with an agreement whereby a pool of rights was conveyed. In determining that the agreement constituted a restraint, [and] the Court stated, “[S]ince as a *practical* matter all member institutions need NCAA approval, members have no *real* choice but to adhere to the NCAA’s television controls.” *Id.* at 2963 (emphasis added) (footnote omitted). Thus, the restraining effect of the challenged agreement arose not by virtue of its terms alone, but because as a “practical” matter no “real” alternative existed whereby individual negotiations could occur between member schools and television broadcasters. Second, the Court had occasion to characterize the blanket license for music performing rights that it had sustained against a *per se* challenge in *CBS* and stated that under the blanket license “each individual remained free to sell his own music *without restraint*.” *Id.* at 2968 (emphasis added). NCAA thus reinforces our view that the first issue is whether the local television stations have proven that they lack, as a “practical” matter, a “real” alternative to the blanket license for obtaining music performing rights.

In reaching the conclusion that plaintiffs had proven the lack of realistically available alternatives to the blanket license, Judge Gagliardi gave separate consideration to three possibilities: the program license, direct licensing, and source licensing. We consider each in turn.

[1] *Program License*. Judge Gagliardi based his conclusion that a program license is not realistically available to the plaintiffs essentially on two circumstances: the cost of a program license and the reporting requirements that such a license imposes on a licensee. “The court therefore concludes that the per program license is too costly and burdensome to be a realistic alternative to the blanket license.” 546 F. Supp. at 289 (footnote omitted). Without rejecting any subsidiary factual finding concerning the availability of a program license, we reject the legal conclusion that it is not a realistic alternative to the blanket license.

The only fact found in support of the conclusion that the program license is “too costly” is that the rates for such licenses are seven times higher than the rates for blanket licenses. The program license rate is 9%; the blanket license rate is between 1% and 2%. This difference in rates does not support the District Court’s conclusion for several reasons. First, the rates are charged against different bases. The blanket license rate is applied to a station’s total revenue; the program license rate is applied only to revenue from a particular program. Since the base for the blanket license fee includes revenue from network programs, for which the networks have already acquired performing rights by virtue of their blanket licenses, as well as some local programs that use no music, it is inevitable that the rate for a local station’s blanket license will be less than the rate for a program license taken solely to permit use of music on a particular program.

Second, the degree of difference between the two rates is largely attributable to the stations themselves. In negotiating a revision of license rates in [an earlier litigation], the All-Industry Committee elected not to press for reduction of the program license rate and instead concentrated on securing a reduction of the blanket license rate, believing, as it informed the broadcasters it represented, that “the critical matter at this time was to get the best possible blanket license.” Having preferred to win a lower price for only the blanket license, the stations are in no position to point to the widened differential between rates to show that program licenses are not realistically available.

Third, the only valid test of whether the program license is “too costly” to be a realistic alternative is whether the price for such a license, in an objective sense, is higher than the value of the rights obtained. . . . Within reasonable price ranges, the program license is not an unrealistic alternative to the blanket license simply because the rate for the latter is less. The differential in rates may reflect the inherent difference in the bundle of rights being conveyed. Even if the blanket license is objectively the “better buy” for most users, the program license would be a realistic alternative so long as it was fairly priced for those who might find it preferable for reasons other than price. But if the program license were available only at a price beyond any objectively reasonable range, the “bargain” nature of the blanket license would not immunize it from characterization as a restraint. Sellers of alternatives may not set absurdly high prices at which they have no real intention of making sales and then point to the cheaper price of the package under attack to argue that it is not a restraint but the object of customer preference.

Thus, while the relative cheapness of the blanket rate does not necessarily

mean that it is not a restraint, the absence of evidence that the program license has been artificially priced higher than is reasonable for value received bars any conclusion that the program license is “too costly” to be a realistic alternative. . . .

Fourth, even if there were evidence that showed the program license rate to be too “high,” that price is always subject to downward revision by Judge Conner [the Southern District “rate court” judge], who currently supervises the administration of the Amended Final Judgment. Two aspects of that judgment are especially pertinent to any claim that the price of the program license is too “high.” In a proceeding to redetermine rates, the burden is on ASCAP [under the consent decree] to prove the reasonableness of the rates charged, and [must] “use its best efforts to avoid any discrimination among the respective fees fixed for the various types of licenses which would deprive the licensees or prospective licensees of a *genuine choice* from among such various types of licenses.” The availability of a judicially enforceable requirement of a “reasonable” fee precludes any claim that the program license rate is too high, especially in the context of television stations regularly represented by a vigorous committee with the demonstrated resources, skill, and willingness to invoke the rate-adjustment process.

In addition to cost, Judge Gagliardi considered the program license not realistically available because of the burdens of required record-keeping that accompany its use. This conclusion is similarly flawed by the lack of evidence that the record-keeping requirements have been unnecessarily imposed. . . .

The lack of evidence that the program license is not realistically available has a two-fold significance in determining whether the blanket license has been shown to be a restraint. First, the program license itself remains as an alternative to the blanket license for the local stations to acquire performing rights to the music on all of their syndicated programs. That consequence is not necessarily determinative since the program license is in reality a limited form of the blanket license and, like the blanket license, is subject to the objection that its use by stations would continue the present practice whereby no price competition occurs among individual songs with respect to licensing of performing rights. However, the availability of the program license has a second and more significant consequence: The program license provides local stations with a fallback position in the event that they forgo the blanket license and then encounter difficulty in obtaining performing rights to music on some syndicated programs either by direct licensing or by source licensing. Whether those alternatives were proven to be unavailable as realistic alternatives is our next inquiry.

[2] *Direct Licensing.* The District Court concluded that direct licensing is not a realistic alternative to the blanket license without any evidence that any local station ever offered any composer a sum of money in exchange for the performing rights to his music. That evidentiary gap exists despite the 21-year interval between entry of the [consent decree] and the trial of this case, during which the local stations had ample opportunity to determine whether performing rights could be directly licensed.

The District Court declined to attach any significance to the absence of purchase offers from stations directly to copyright proprietors for two related reasons. Judge Gagliardi concluded, first, that direct licensing could not occur without the intervention of some agency to broker the numerous transactions that would be involved and, second, that the television stations lack the market power to induce anyone to come forward and perform that brokering function. 546 F. Supp. at 290. We have no quarrel with the first proposition. Some intermediary

would seem essential to negotiate performing rights licenses between thousands of copyright proprietors and hundreds of local stations, in the same manner that the Harry Fox Agency for years has brokered licenses for “synch” rights between copyright proprietors and program producers.

However, we see no evidentiary support for the District Court’s second proposition—that no one would undertake the brokering function for direct licensing of performing rights. Judge Gagliardi was led to this conclusion, not on the basis of any evidence of an expressed reluctance on anyone’s part to broker direct licensing, but because of his view of the difference between the market power of [a national network] and that of the local television stations . . .

[However,] plaintiffs in this case do not discharge their burden of proving that local stations cannot realistically obtain direct licenses by showing that they have less market power than [a national network.] The issue is whether the local stations have been shown to lack power sufficient to give them a realistic opportunity to secure direct licenses. To conclude that they do not simply because no one of them is as powerful as CBS disregards the functioning of a market. Sellers are induced to sell by a perception of aggregate demand, existing or capable of stimulation. . . . Thus, it avails plaintiffs nothing to cite the testimony of Salvatore Chiantia, president of the National Music Publishers Association, that as a publisher he would not line up at the door of KID-TV in Idaho Falls to license performing rights . . . What is pertinent is Chiantia’s point that while it would be difficult for him to have a staff that would wait at the doors of 700 television stations, “if [direct licensing] was the way I was going to get my music performed, I would have to devise a system which would make it possible for me to license.” The plaintiffs have not presented evidence to show that a brokering mechanism would not handle direct licensing transactions if the stations offered to pay royalties directly to copyright proprietors. . . .

[3] *Source Licensing*. As Judge Gagliardi noted, the “current availability and comparative efficiency of source licensing have been the focus of this lawsuit.” The availability of source licensing is significant to the inquiry as to whether the blanket license is a restraint because so much of the stations’ programming consists of syndicated programs for which the producer could, if so inclined, convey music performing rights. Most of these syndicated programs use composer-for-hire music. As to such music, the producer starts out with the rights of the copyright, including the performing right, by operation of law, 17 U.S.C. 201(b), unless the hiring agreement otherwise provides. Thus it becomes important to determine whether the stations can obtain from the producer the music performing right, along with all of the other rights in a syndicated program that are conveyed to the stations when the program is licensed. As to “inside” music, source licensing would mean that the producer would either retain the performing right and convey it to the stations, instead of following the current practice of assigning it to the composer and a publishing company, or reacquire the performing right from the composer and publisher for conveyance to the stations. As to “outside” music, source licensing would mean that the producer would have to acquire from the copyright proprietor the performing right, in addition to the “synch” right now acquired.

Plaintiffs sought to prove that source licensing was not a realistic alternative by presenting two types of evidence: “offers” from stations and analysis of the market. Prior to bringing this lawsuit, the stations had not sought to obtain performing rights via source licensing [but] plaintiffs began in mid-1980, a year and

one-half after the suit was filed, to create a paper record designed to show the unavailability of source licensing.

Various techniques were used. Initially, some stations simply inserted into the standard form of licensing agreement for syndicated programs a new clause specifying that the producer has obtained music performing rights and that the station need not do so. No offer of additional compensation for the purchase of the additional rights was made. Not surprisingly most producers declined to agree to the proposed clause. . . .

Another approach, evidenced by King Broadcasting Co.'s letter to MCA, attached a music performing rights rider to the standard syndication licensing agreement and added, "If [*sic*] an additional fee is in order, we would certainly consider favorably any such reasonable fee." . . . Metromedia, Inc., owner of several stations, went further and asked Twentieth Century-Fox Television ("Fox"), "Since you are the 'seller,' what is the price you would affix to the altered product [the syndication license including music performing right]?" In reply Fox made the entirely valid point that since syndication licensing without music performing rights had been the industry practice for years, it was Metromedia's "responsibility to advise us in what manner you would like" to change the current arrangements. Notably absent from all of the correspondence tendered by the plaintiffs is the customary indicator of a buyer's seriousness in attempting to make a purchase—an offer of a sum of money.

Judge Gagliardi properly declined to give any probative weight to the plaintiff's transparent effort to assemble in the midst of litigation evidence that they had seriously tried to obtain source licensing. . . . Nevertheless the District Court concluded that source licensing was not a realistic alternative because the syndicators "have no impetus to depart from their standard practices and request and pay for television performing rights merely in order to pass them along to local stations." This conclusion does not follow from some of the Court's factual findings and rests on a view of the syndication market that is contradicted by other findings.

The District Court viewed the syndication market as one in which the balance of power rests with the syndicators and the stations have no power to "compel" a reluctant syndicator to change to source licensing. Yet the Court found that there are eight major syndicators, and that they distribute only 52% of all syndicated programs, *id.* at 281, hardly typical of a non-competitive market. Moreover, the Court characterized production of syndicated programs as a "risky business." . . . a finding fully supported by the evidence. It may be that the syndicator of a highly successful program has the upper hand in negotiating for the syndication of that program and would not engage in source licensing for music in that program simply to please any one station, but it does not follow that the market for the wide range of syndicated programs would be unresponsive to aggregate demand from stations willing to pay a reasonable price for source licensing of music performing rights. . . .

Defendants vigorously assert that whatever reluctance producers may have to undertake source licensing reflects their view of the efficiency of the blanket license. They contend that the blanket license may not properly be found to be a restraint simply because producers of syndicated programs regard it as efficient. We need not determine whether defendants have correctly analyzed the motivation of those syndicators who have expressed reluctance to undertake source licensing. Our task, in determining whether plaintiffs have presented evidence

sufficient to support a conclusion that the blanket license is a restraint of trade, is not to psychoanalyze the sellers but to search the record for evidence that the blanket license is functioning to restrain willing buyers and sellers from negotiating for the licensing of performing rights to individual compositions at reasonable prices. Plaintiffs have simply failed to produce such evidence.

Instead they suggest that source licensing is not a realistic alternative because the agreements producers have made with composers and publishers are a “contractual labyrinth,” and because the composers have precluded price competition among songs by “splitting” performing rights from “synch” But plaintiffs have made no legal challenge to the “composer-for-hire” contracts by which “inside” music is customarily obtained for syndicated programs, with provisions for producers to assign performing rights to composers and publishers. And composers have not “split” performing rights from “synch” rights; they have separately licensed distinct rights that were created by Congress. Moreover, the composers’ grant of a performing rights license to ASCAP/BMI is on a non-exclusive basis. That circumstance significantly distinguishes this case from *Alden-Rochelle*, where ASCAP’s acquisition of exclusive licenses for performing rights was held to restrain unlawfully the ability of motion picture exhibitors to obtain music performing rights directly from ASCAP’s members.

[4] *The Claimed Lack of Necessity*. Plaintiffs earnestly advance the argument that the blanket license, as applied to syndicated programming, should be declared unlawful for the basic reason that it is unnecessary. In their view, the blanket license is suspect because, where it is used, no price competition occurs among songs when those who need performing rights decide which songs to perform. The resulting absence of price competition, plaintiffs urge, is justifiable only in some contexts such as night clubs, live and locally produced programming of television stations, and radio stations, which make more spontaneous choices of music than do television stations.

There are two fundamental flaws in this argument. First, it has not been shown on this record that the blanket license, even as applied to syndicated television programs, is not necessary. If all the plaintiffs mean is that a judicial ban on blanket licensing for syndicated television programs would not halt performance of copyrighted music on such programs and that some arrangement for the purchase of performing rights would replace the blanket license, we can readily agree. Most likely source licensing would become prevalent, just as it did in the context of motion pictures in the aftermath of *Alden-Rochelle*. But a licensing system may be “necessary” in the practical sense that it is far superior to other alternatives in efficiency and thereby achieves substantial saving of resources to the likely benefit of ultimate consumers, who usually end up paying whenever efficient practices are replaced with inefficient ones.

Moreover, the evidence does not establish that barring the blanket license as to syndicated programs would add any significant price competition among songs that the blanket license allegedly prevents. When syndicators today decide what music to select for their programs, they do so in the vast majority of instances, by deciding which composer to hire to compose new music for their programs. As to that “inside” music, which plaintiffs estimate accounts for 90% of music on syndicated programs, there is ample price competition: Prices paid as “up front” money in order to hire composers vary significantly. Even when syndicators consider use of pre-existing music (for which copyright protection has not ex-

pired), there is some price competition affecting the choice of that “outside” music because prices for “synch” rights vary. . . .

The second flaw in the argument is more fundamental. Even if the evidence showed that most of the efficiencies of the blanket license could be achieved under source licensing, it would not follow that the blanket license thereby becomes unlawful. The blanket license is not even amenable to scrutiny under section 1 unless it is a restraint of trade. The fact that it may be in some sense “unnecessary” does not make it a restraint. This is simply a recognition of the basic proposition that the antitrust laws do not permit courts to ban all practices that some economists consider undesirable. Since the blanket license restrains no one from bargaining over the purchase and sale of music performance rights, it is not a restraint unless it were proven that there are no realistically available alternatives . . . It is . . . irrelevant whether, as plaintiffs contend, the blanket license is not as useful or “necessary” in the context of syndicated programming on local television stations as it is in other contexts. Not having been proven to be a restraint, it cannot be a violation of section 1.

. . . Without doubting that the context in which the blanket license is challenged can have a significant bearing on the outcome, we hold that the local television stations have not presented evidence in this case permitting a conclusion that the blanket license is a restraint of trade in violation of section 1.

The judgment of the District Court is therefore reversed.

WINTER, CIRCUIT JUDGE (concurring)

I disagree with little stated in Judge Newman’s thoughtful and comprehensive opinion. I write separately because I believe that it demonstrates that the blanket license as presently used cannot have an anti-competitive effect and hope that his analysis, used out of context, will not lead to future needless litigation over blanket licenses in the music industry. . . .

NOTES

1. The controversies concerning public performance licensing continue unabated in many forums. At the time of this writing, a number of pending cases regarding various aspects of performance licensing continue, with the focus shifting from the networks and independent television stations to the cable programmers and operators. The big issues in the cases are: Who is liable for a performance fee, and what is a reasonable fee for a license?

2. In 1993, Magistrate Judge Dolinger filed a 226-page Opinion and Order under the *Buffalo Broadcasting* decision setting the final blanket and per-program license fees through 1995 for local stations and O&Os (“owned and operated companies”). The per-program rate has since been reduced from 9 times to approximately 1.5 times the pro-rated blanket rate.

3. The full-length opinion in *Buffalo Broadcasting* makes repeated references to the lengthy litigation brought by CBS against ASCAP and BMI, whose actions have frequently been challenged over the years, including antitrust inquiries initiated by the United States government, resulting in different consent decrees. See *United States v. ASCAP*, 1940–43 Trade Cas. (CCH) ¶ 56,104 (S.D.N.Y. 1941); *United States v. BMI*, 1940–43 Trade Cas. (CCH) ¶ 56,098 (S.D.N.Y. 1941); *United States v. ASCAP*, 1950–51 Trade Cas. (CCH) ¶ 62,595 (S.D.N.Y. 1950); and *United States v. BMI*, 1966 Trade Cas. (CCH) ¶ 71,941 (S.D.N.Y. 1966).

4. The court in its *Buffalo Broadcasting* decision discussed at several points a nondra-

matic performing right. In a footnote, the court explained this right as follows: A non-dramatic performing right is the right to perform a musical composition other than in a dramatic performance, which the ASCAP blanket license defines as “a performance of a musical composition on a television program in which there is a definite plot depicted by action and where the performance of the musical composition is woven into and carries forward the plot and its accompanying action.” See 3 *Nimmer on Copyright* 10.10[E] (1984).

5. The court in *Buffalo Broadcasting* noted limitations on the per-program license as follows:

The program license is not an alternative means of obtaining performing rights to individual compositions since it permits the licensee to use all compositions in the repertory of the licensor for an individual program. Its use would not afford a station a choice among competitive prices of performing rights for individual compositions. Nevertheless, to whatever extent it is available, it is an alternative means of obtaining performing rights needed to broadcast one program. Moreover, the program license, if available, may facilitate the stations’ efforts to pursue direct licensing and source licensing, as we discuss later in the text. In any event, the parties joined issue as to whether it is a realistically available alternative, the District Court ruled on the issue, and we review that ruling.

8.7.2 Split Licensing

In a business such as cable TV, in which programming passes through more than one conduit, the performing rights societies have tried repeatedly to collect license fees at each stage. Just as regularly, they have been turned down. For example, Turner Broadcasting System was successful in arguing that ASCAP’s refusal to issue a “through-to-the-viewer” license to WTBS was in violation of the 1950 Consent Decree. See *United States v. American Society of Composers, Authors and Publishers/Application of Turner Broadcasting System, Inc.* 782 F. Supp 778 (S.D.N.Y. 1991), *aff’d*, 956 F.2d 21 (2d Cir.), *cert. denied*, 112 S.Ct. 1950 (1992). A similar result was reached in the following case.

U.S. v. ASCAP, In re Fox Broadcasting Co., 870 F. Supp. 1211 (S.D.N.Y. 1995).

CONNER, D. J.

[The then-fledgling Fox Network distributed programming via satellite to 8 stations owned and operated by Fox (“O&O’s,” in industry parlance) and 134 affiliates, who, in turn, transmitted it to their audiences.]

[When] Fox commenced operations . . . ASCAP treated Fox’s programs in the same way that it handled syndicated programming—by licensing the programming at the local station level pursuant to the interim fee arrangement in place at that time for the local stations. In late 1991, ASCAP [demanded] that Fox [obtain] a license for the transmission of its programs to the Fox [Network] stations . . .

[T]herefore, Fox filed this application, seeking a determination of whether ASCAP could require it to obtain a license from the transmission of its programs to its affiliates and O&Os . . .

We hold that ASCAP is not entitled to collect a fee from Fox for the transmission of Fox’s programs to its affiliates, and that, even if it were, the reasonable retrospective fee would be \$0. The music performances in Fox’s programming were included in the license fees set for the local stations through the end of 1995, and ASCAP may not be paid two license fees for one broadcast of a musical

performance to the viewing audience. Prospectively, Fox may indeed be a “network” that ASCAP should license on a through-to-the-viewer basis. If ASCAP wishes to license Fox as it does ABC, NBC and CBS, however, it must exclude revenue from Fox programs from the total revenues used to calculate the license fees collected from the local stations in order to reflect the fact that the Fox programs will no longer be licensed at the local level. . . .

It has long been recognized that ASCAP may not “split” rights in order to collect more than one license fee for any one use of the music in its repertory. This prohibition is apparent in several provisions of the Consent Decree and in the case law applying the Decree.

In 1948, the Court first indicated that collecting fees at more than one level for particular music use was forbidden. In *Alden-Rochelle, Inc. v. American Society of Composers, Authors and Publishers*, 80 F. Supp. 888, *as amended*, 80 F. Supp. 900 (S.D.N.Y. 1948), the Court held that ASCAP’s practices in licensing music use in motion pictures violated the anti-trust laws. . . .

Although ASCAP has collected its license fees for the broadcast of Fox’s programs from the local stations from Fox’s inception in 1986, and will continue to do so through December 31, 1995, ASCAP, Fox and Fox’s local stations are, of course, free to restructure the terms of their relationship for license terms beginning in January 1996. Indeed, we believe that ASCAP is correct in its argument that Fox should be licensed on a through-to-the-viewer basis as ABC, NBC and CBS are. In practical terms, Fox does present itself to the public as a fourth network, and its revenues are substantial. Every week, it distributes a substantial amount of programming, clearly identified to the viewing public as Fox programming, to approximately 142 local television stations. . . .

8.8 SAMPLING

Many records embody digital samples of other recordings that require licenses from both the owner of the sound recording that is to be utilized and the owner of the musical composition. When a license for use of the song being sampled is not secured before the release, the results can be disastrous as is seen in the *Grand Upright* case, the classic expression in the area:

Grand Upright Music, Ltd. v. Warner Bros. Records, Inc., 780 F. Supp. 182 (U.S.D.C., S.D.N.Y. 1991).

KEVIN THOMAS DUFFY, DISTRICT JUDGE

“Thou shalt not steal” [footnote omitted] has been an admonition followed since the dawn of civilization. Unfortunately, in the modern world of business this admonition is not always followed. Indeed, the defendants in this action for copyright infringement would have this court believe that stealing is rampant in the music business and, for that reason, their conduct here should be excused. The conduct of the defendants herein, however, violates not only the Seventh Commandment, but also the copyright laws of this country.

This proceeding was instituted by Order To Show Cause to obtain a preliminary injunction against the defendants for the improper and unlicensed use of a composition “Alone Again (Naturally)” written and performed on records by Raymond “Gilbert” O’Sullivan. Defendants admit “that the Biz Markie album ‘I Need A Haircut’ embodies the rap recording ‘Alone Again’ which uses three words

from ‘Alone Again (Naturally)’ composed by Gilbert O’Sullivan and a portion of the music taken from the O’Sullivan recording.” . . .

Each defendant who testified knew that it is necessary to obtain a license—sometimes called a “clearance”—from the holder of a valid copyright before using the copyrighted work in another piece. Warner Bros. Records, Inc. had a department set up specifically to obtain such clearances. WEA International, Inc. knew it had to obtain “consents, permissions or clearances.” . . . Cold Chillin’ Records, Inc. knew that such clearances were necessary.

Clearly, the attorneys representing Biz Markie and acting on his behalf also knew of this obligation. Biz Markie’s attorneys sent copies of an August 16 letter, addressed to counsel for Cold Chillin’ Records, Inc., to the other defendants. That letter contains the following:

In light of the fact that Cold Chillin’ knew that other sample clearance requests were pending at that time, it follows that Cold Chillin’ should have known that similar denials of permission by rightsholders of other samples used on the album and single might be forthcoming, for which similar action would have been appropriate. Nevertheless, instead of continuing to communicate with our client and us and otherwise cooperating to ensure that all rights were secured prior to release of the album and single, as it did in the situation involving the Eagles samples, Cold Chillin’ unilaterally elected to release the album and single, perhaps with the thought that it would look to Biz for resolution of any problems relating to sampling rights, or the failure to secure such rights, that may arise in the future.

Consequently, if any legal action arises in connection with the samples in question, such action will not arise due to the fact that Biz used the samples in his recorded compositions, but rather, due to the fact that Cold Chillin’ released such material prior to the appropriate consents being secured in connection with such samples.

From all of the evidence produced in the hearing, it is clear that the defendants knew that they were violating the plaintiff’s rights as well as the rights of others. Their only aim was to sell thousands upon thousands of records. [Footnote omitted.] This callous disregard for the law and for the rights of others requires not only the preliminary injunction sought by the plaintiff but also sterner measures.

The argument suggested by the defendants that they should be excused because others in the “rap music” business are also engaged in illegal activity is totally specious. The mere statement of the argument is its own refutation.

The application for the preliminary injunction is granted. . . . This matter is respectfully referred to the United States Attorney for the Southern District of New York for consideration of prosecution of these defendants under 17 U.S.C. 506(a) and 18 U.S.C. 2319.

The resolution of any issue left open in this civil matter should have no bearing on the potential criminal liability in the unique circumstances presented here.

Chapter 9

SOUND RECORDINGS

9.1 DEVELOPMENT OF THE INDUSTRY

Thomas Edison could never have foreseen the magnitude and complexity of the record business as it developed in the 20th century and as it is evolving in the 21st. Not only has the content of records changed—from classical and vaudeville to rap and new age music—but the nature of the sound carrier has changed from the piano roll, to the 78 rpm record, to the 45 rpm, to the 33/13 rpm LP, to the compact disc, DAT (digital audio tape), minidisc (MD), CD-+ and CD-ROM, digital videodisc, and now—the Internet. Changes in music and technology have brought new challenges and new issues to the legal and business side of the record industry, especially in the past 30 years. With the emergence of MP3.com, Napster, Gnutella, and other online distribution methods (see, especially, the MP3.com and Napster cases, which are discussed in Chapter 12), and the entry of the “majors” into distribution via the Internet, it is clear that the old, conventional wisdom will no longer suffice and that new business models and contractual forms will evolve. IDC, a market research firm, predicted during the Spring of 2000 that digital downloads of recorded music in the U.S. would reach \$3 billion—close to one quarter of the business—by 2005. However, Sanford C. Bernstein & Co. (a Wall Street firm) also predicted that by 2002, the annual loss to piracy would be approximately \$2 billion per year—one-sixth of the total business. Within months of its launch, Napster had 10 million users, and record stores near college campuses had experienced noticeable sales declines. Therefore, as with literary publishing and music publishing, what happens in the next few years will certainly not reflect the totality of the customs and usages which have prevailed for decades. For example, downloads of individual “cuts” rather than entire “albums” may well mean the decline or even the disappearance of the traditional recording contract keyed to the delivery of a stated number of albums. Nevertheless, it is likely that the recording industry (at least in the early years of the new millennium) will continue to utilize in large part the language and concepts which have prevailed in the past.

At the turn of the century, the record industry, dominated by two companies, the Victor Talking Machine Company (later to become RCA) and the Columbia Graphophone Company, found an enormous market for recordings of spoken words and classical and vaudeville show tunes. Although the growth of the record industry was later tempered by the advent of radio in the 1920s and television in the late 1940s, by 1950 U.S. record sales were approximately \$189 million. However, the arrival of the long-playing record, “hi-fi” and rock ’n roll caused a revolution. By the early 1960’s, records had become a vast, mass-market phenomenon, which grew even larger with successive technological improvements: eight-track cartridges, audiocassettes, compact discs. The industry realized exponential growth from the 1950s through 1978, then suddenly suffered an unprecedented decline in sales and profits, partially attributable to new competition for entertainment dollars from video games, videocassettes, and cable television. That recession lasted approximately six years. Beginning in 1984, the record business enjoyed increased sales and profits, largely from sales of its superstar artists, such as Michael Jackson, R.E.M, U2 and Madonna, and the advent of compact discs.

Back when of rock and roll began in the mid-1950s, the record industry began to enjoy double-digit growth and a proliferation of small independent record labels that were able to record and market both rhythm-and-blues music and rock-and-roll music. Such successful independent labels included Sam Phillips’ Sun Records; Chess Records, which recorded Muddy Waters, Howlin’ Wolf, and Chuck Berry; and Atlantic Records in New York, which was a primary force in the recording of rhythm and blues in the 1950s. Two additional developments affected the business side of music: Beginning with the Columbia Record Club in 1955, major record labels began alternate distribution of their records through mail order, and in 1957 the first stereo record was released.

The modern-day record business may be said to have been launched with the coming of the Beatles to America in 1962. For the next 15 years the industry experienced a great growth period. By 1999, the legitimate global record business—like films and television, records are subject to massive pirate inroads—amounted to approximately \$38 billion per year. Between 1962 and 2000 there was significant consolidation in the record business to the extent that, today; five multinational companies—each part of larger conglomerates—control and account for more than 90 percent of sales of recorded music. Those companies are: Warner Music Group (consisting of Warner Bros. Records, Elektra Records, Atlantic Records, and affiliated labels); EMI (consisting of Capitol EMI Records and Virgin Records); Sony Music (including Sony, Epic and 550 Records), which was once part of the CBS empire and was bought by Sony in 1989); BMG Entertainment (Bertelsmann Music Group, including U.S.-based Arista Records and J Records), part of the German-owned conglomerate Bertelsmann; and Universal Music Group (a division of Universal Studios, Inc., which was acquired in 2000 by French conglomerate Vivendi, owner of pay-television major Canal Plus) which includes Universal, PolyGram (acquired from the Dutch conglomerate Philips) along with the Mercury, Island, A&M Geffen Records and Interscope Records.

As in the motion picture industry, the major motivating factor in consolidation of the industry has been distribution. Into the 1970s, the record industry relied in large measure on a series of independent record distributors that acted as intermediaries between the record manufacturers and retailers. In the 1980s the

independent distribution system began to break down as more and more independent labels such as Arista, Motown, and A&M left independent distribution in favor of distribution by one of the (then) six “majors”.

But (as we shall also see when we proceed to discuss films and television) consolidation in the record distribution business has been accompanied by a simultaneous movement among the majors to create (or affiliate with) satellite companies (called “custom” labels) that find and develop new talent to feed the enormous worldwide distribution networks that the major labels have established. In some cases, custom labels began as true, seat-of-the-pants start-ups, which nurtured and developed young artists to a certain level beyond which they needed the marketing and promotional expertise of the majors. In others, they were founded by established veterans with industry financing, in much the same way that independent television producers such as Spelling-Goldberg and Carsey-Werner got started. Examples of successful independents include Priority, Matador, LaFace, Interscope, Maverick, Tommy Boy, Radioactive, Mammoth, and American. Many of these labels have been (or have been perceived as being) on the cutting edge of the music business, and the desire to capitalize on this perception has been such that Warner Bros. created an independent distribution company, Alternative Distribution Alliance and Sony invested in Relativity Records’ distribution network known as RED.

Despite increasing consolidation within the industry, the nature of the record business continues to allow the independent record label to not only survive but to occasionally flourish. In 1994 we saw the triple platinum (3 million units sold in the U.S.) success of a group, the Offspring, on the independent label Epitaph, and Creed’s debut album, fueled by heavy pre-release Internet promotion, debuted in the top ten on the *Billboard* chart.

New players and configurations are always on the horizon, especially now that the Internet has become such an important music source. Emusic.com, launched in 1998, is as of this writing home to more than 500 independent labels. MP3.com provides exposure for hundreds of artists, and artists such as Chuck D have undertaken their own Internet distribution.

Movies and music have always enjoyed a certain amount of collaborative success, from the early recordings of vaudeville shows and 1930s musicals to the phenomenal success of soundtrack records from such films as *The Sound of Music*, *Saturday Night Fever*, *The Bodyguard* and *The Lion King*. The 1990s brought these two industries together on an unprecedented level, as filmmakers found that the use of diverse popular music in soundtracks could result in success for both the movie and the soundtrack record. Soundtrack albums are regular components of the *Billboard* top 200 pop albums chart.

Another development in the record business has been the growth of the music video, particularly as a promotion tool for the sale of records through MTV, VH-1, and other video outlets. In addition, extended-length videos, concert videos, and video compilations have established new sources of revenue and deals for the record industry through videocassettes, video discs, and pay and cable television licensing.

The record industry is also subject to the “consumerism” that has confronted other industries in recent years, perhaps the most promising example being the uproar which resulted when it turned out that the winners of the 1989 Grammy award for the best new artist, Milli Vanilli, were not actually the singers on “their” debut record. They were stripped of their Grammy award by the National

Academy of the Recording Arts and Sciences, and a series of consumer fraud class actions were brought in various state and federal jurisdictions. More recently, in the face of an FTC investigation, the majors abandoned their policies of denying “co-op” advertising support to retailers which did not maintain recommended price levels, which, in turn, has led to other consumer class actions.

The majority of these suits are based upon various state consumer fraud and false advertising statutes, while the federal suits are based upon Section 43(a) of the Lanham Act. The State of California, where several class action suits were brought, has a general prohibition against false advertising and misleading statements to the public that would arguably include record companies/artists/producers who disseminate misleading or untrue information regarding the artists (California General Regulations, Section 17.500).

The content of music lyrics became a significant legal issue beginning in the 1980s and continues on a number of fronts. The major labels in the record industry, pressed with the threat of potential legislation in several jurisdictions to require mandatory “stickering” of records with controversial lyric content, agreed upon a voluntary warning sticker policy. But this was just the beginning. As will be discussed later in this chapter, lyric liability suits were brought in civil actions, largely by families of suicide victims who claimed that such deaths were incited or caused by lyrics to certain songs. Simultaneously, in criminal courts both recording and performing artists were being accused of obscenity; the *Skyywalker* and *Soundgarden* cases (see Section 5.3.3) are examples of this continuing concern.

Technology further tested the legal and business segments of the music industry with the onset of digital “sampling” in the 1980s. The samples ranged from a single drum beat (or a James Brown scream), to an entire chorus of a song. Record companies, music publishers, and artist representatives were faced with traditional licensing methods and copyright law principles of “copying” and “fair use” that did not specifically address the issues raised by sampling. *The Grand Upright* case (Sec. 8.8) applies with equal force in the recording industry; Judge Duffy’s forthright statement seems to have provided the incentive for the establishment of a highly active sampling license market.

A more costly problem has been home copying, first via blank cassettes, now via CD “rippers” and “burners” and “swaps” via Napster and other similar exchange technologies, all of which cost the the U.S. record industry billions of dollars each year. While surveys taken during the period when home taping was the principal duplication method indicated that those who taped the most were also those who purchased the most legitimate product, surveys of Internet users (especially college students) indicate that they purchase far less legitimate product than before they commenced their Internet-based copying.

A major issue for the recording industry is digital audio broadcast (DAB) services, via satellite and via the Internet. Until 1995, Section 107 of the Copyright Act did not include a performance right in sound recordings. That year, the Digital Performance in Sound Recordings Act was passed, providing an exclusive right with respect to interactive and subscription services which would give the listener the ability to select or to predict what would be broadcast (and, thereby, to be ready to record it, which would displace normal record sales.) The Digital Millennium Copyright Act of 1998 provided for a compulsory license for other digital broadcast services of a non-interactive, non-predictable nature.

9.2 CONTRACTS IN THE RECORD INDUSTRY

The breakeven point on records is high, reflecting the high-risk nature of the industry. Although the cost of manufacturing a CD or a cassette is low, the costs of advertising, promotion, marketing and distribution are very high. While there is no manufacturing cost on the Internet, the huge losses incurred by so many “dotcoms” in recent years have been due mostly to the cost of advertising and promotion through conventional media. With tens of thousands of active music sites in the U.S. alone, it is clear that survivors must either cultivate niche markets or advertise, promote and market their products vigorously. In the “hard copy” world, experience has shown that only about one record out of every five albums released sells enough copies to recoup its recording costs. For a major record company, the breakeven point for record sales for a typical album is approximately 250,000 copies. As in other segments of the entertainment industry, the record company relies on one hit album, such as Alanis Morissette’s “Jagged Little Pill,” to pay for a raft of unsuccessful albums.

Cassettes, and compact discs are relatively inexpensive to manufacture. The distributor will charge wholesale accounts approximately 60% of the suggested retail list price. However, artist advances, production costs, and the costs of advertising, marketing, promotion and distribution are the major item, and they account for the greater part of the industry’s costs and risks. In addition, the perceived need to produce videos in connection with new releases has greatly increased overall costs.

As technology has evolved and the sophistication of recording techniques has extended to multitrack recording and digital recording, today’s costs of making a technically satisfactory recording can be significant. It is not uncommon for a recording artist to spend between \$50,000 and \$200,000 recording an LP. When promotional, advertising and manufacturing costs are added to these expenses, a record label can easily have invested \$500,000 in a record before selling any copies. Moreover, although singles were major sales vehicles years ago (for example, the O’Jays’ “Backstabbers” sold some 3,000,000 copies during the early 1970s), they have long since become (at least in hard copy form) essentially promotional, because of lower sales levels, high levels of “free goods” and a 100% return privilege.

“Free goods” are unique to the record industry. They are the equivalent of a discount. Contracts distinguish between a “distributed” record and a “sold” record. Usually, the arrangement between record distributors and retailers and wholesalers allows return of some or, in many cases, all of the unsold records delivered to the retailer. The potential returned record causes great concern in contracts both between retailer and record wholesaler, and between record company and artist.

One of the most challenging and difficult aspects of the record industry is the promotion of records. Traditionally, records were promoted through radio airplay; however, “tightening” (that is, shortening) of radio play lists beginning in the 1970s made such promotion efforts extremely difficult. Charges of “payola” have been leveled periodically against record labels and radio stations, initially in congressional investigations in 1959 and 1960 (which led to the subsequent indictment of Allen Freed, the “father of rock and roll”) and most recently in a congressional investigation and grand jury investigation into the hiring of independent record promoters and their involvement with radio stations and radio

airplay, as chronicled in Fredric Dannen's best-selling book *Hitmen: Power Brokers and Fast Money Inside the Music Business*. According to Dannen, from the late 1970s throughout much of the 1980s, the record companies spent as much as \$50 to \$80 million each year on independent promotion. After a 1986 NBC news report called "Independent Promotion: The New Payola," most major record companies discontinued their use of independent promotion companies. By 1991 the labels' self-imposed ban on independent promotion seemed to be eroding, and most record labels were openly acknowledging their use of independent promotion firms to promote their records but denying that such independent promotion is tied in any way to payola.

As traditional radio airplay became increasingly difficult to obtain, record companies and artists sought alternative means of promoting and ultimately selling records. Live performance tours have been a traditional promotional vehicle. Beginning in the early 1980s, MTV, VH-1 and music videos brought an entirely new avenue of record promotions to the industry. As MTV broke new talent and promoted records, virtually all major record artists and labels began to produce music videotapes, primarily for promotion purposes, with the ultimate goal of an audiovideo combination as a new medium in a videocassette or laser disc. The potential of long-form music videos was demonstrated in 1990 (but not since then), when the video "Hangin' Tough Live" by New Kids on the Block sold 1.25 million copies.

The legal and business aspects of music videos have raised several issues. For example, who pays the costs of the video production (in many cases, \$100,000 or more)? If the record company advances these costs, are they recoupable from subsequent sales (and is recoupment limited to video sales, or may the record company recoup video production costs from record royalties as well)? Who owns the video? Who has artistic control over the video? How are the profits divided if the video is sold in a cassette or disc format?

The process by which music gets put on a record often involves several transactions. The rights and interests of the songwriters, performers, record companies, producers, distributors, and, at times, third parties must all be accommodated. The most common agreements in use in the record industry are the artist agreement, the producer agreement, the mechanical license agreement, the master use license, the master purchase agreement, the custom label/pressing and distribution agreement, and the special products agreement.

9.2.1 Artist Recording Agreement

The most common agreement is the artist recording agreement between the recording artist(s) and the record company for the recording and distribution of records. The increasing sophistication of the business in recent years and the increasing potential income from the sale of recordings have caused the agreement to become significantly more complex. In the 1920s singer Bessie Smith signed a recording contract that was less than one page. Today, a first draft of an artist recording agreement for a major label may be in excess of 100 single-spaced pages.

Typically, a record label will want to sign the artist to an exclusive recording agreement that has a short initial term with a series of options exercisable by the label to extend the term of the agreement with the delivery of additional masters. This initial term-plus-options arrangement was traditionally based on a standard

one-year agreement plus from four to seven one-year options available to the record company. (By way of contrast, the typical book publishing agreement covers one book, plus perhaps an option for a second book, and the typical music publishing agreement covers one album with options for perhaps two or three additional albums.) Now, more typically, it is the initial period plus option periods that are based on the completion of delivery of certain master recordings under the contract (the “minimum recording commitment”). For example, a “contract period” will typically last for the longer of 12 months or until 8 months following release of an album recorded during that contract period.

From the perspective of the record labels the option arrangement gives the label the maximum amount of flexibility, with minimum risks, as the label will exercise the option to renew only in the event the artist succeeds during the initial period. The artist typically will seek a longer fixed period during the initial term and fewer option periods. In addition, the artist may ask for a provision under which, if the first album achieves a specified sales level (*e.g.*, 250,000 copies) the label will be deemed to have exercised its option for the second album.

Modern recording agreements are almost always “exclusive” to the extent that the artists agree to render their exclusive recording services during the term of the agreement for the label. Exceptions, which may be reflected in the agreement, include recording work as a “sideman” on another artist’s recording session and performances on soundtrack records. An additional exclusive provision is what is known as the “re-recording restriction,” which restricts an artist from making another recording of a song that artist has recorded for the company, usually for a period of the longer of two years following the end of the term or five years following the release of the original recording. That way, an artist cannot simply move on to another company and immediately re-record his/her/their earlier hits and pre-empt the market enjoyed by the company for which they were originally recorded.

Payment to the artist is usually in the form of advances against royalties. Advances may be paid directly to the artist for living expenses or be paid as incentives to sign the agreement, for recording costs to make the records under the contract, for video production costs, or for tour support. In most recording agreements, these various advances to the artist are then recouped against the artist’s royalties, which are usually based on a percentage of the total wholesale or retail revenues of the artist’s records sold, for which the company receives payment (*i.e.*, “net paid sales”).

The artist’s royalties (typically beginning at the rate of 9% to 12% of the suggested retail price or 20 to 24 percent of the wholesale price, although if a deal is “all-in,” *i.e.*, the royalty rate includes the artist’s royalty as well as the producer’s royalty, the typical range is more toward 12 % to 15% of list) are reduced by subsequent language in the record contract, including reductions for “container charges” (typically, 20% of list price on cassettes, 25% of list price on CDs, even though the costs of manufacturing such products is nowhere near these percentages; it is better to consider them general overhead charges) and “free goods” (discussed above); lower royalties (typically, 50% of the base rate) for foreign sales, singles, PX and record club sales, “mid-priced” (usually defined years ago as records with list prices between 66⅔% and 80% of the label’s list price on its “top label” releases, but in recent years defined as records selling for as little as \$2 less than top label releases, important because the royalty rate

will be anywhere from 50% to 66⅔ of the regular rate, rather than reduced pro rata), “budget” records (typically, records sold for between 50% and 66⅔% of the top label list price, usually carrying a royalty of 50% of the base rate) or “cutout” records (i.e., records remaining when a recording is deleted from the company’s current catalog, which may become a quaint anomaly in the world of the Internet, and often “overstock”, a tricky concept involving records in excess of what a company thinks it can sell within a reasonably short time frame; there are no royalties on such records); “promotional” records (typically, records given away to DJ’s and others, or sold for less than 50% of list price) and reserves for returns of records to the label.

One of the major issues now concerns royalties on downloads and audio “streaming.” A major label’s form may provide for a reduced royalty (for example, 75% of the otherwise applicable base rate); a 15% to 25% distribution fee, and a 50/50 split on the balance; or a combination of factors, all of which will tend to yield a lower royalty to the artist. The traditional record industry has only just embraced the Internet, and the companies face high costs to establish, maintain and promote their delivery systems, and at least a period of uncertain sales (not to mention piracy.) Instead of selling albums, companies may find themselves selling single downloads, or even moving to a subscription model (with or without advertising support.) The important thing in this area is not to assume that one model prevails. It isn’t so. In addition, companies such as Emusic.com aggressively seek deals under which they deduct specific expenses off the top and split the balance 50/50 with the artist.

Advances and royalties for superstar artists do not conform to any pattern or range; they are determined strictly by negotiations, but major artists can command tens of millions of dollars in advances and their royalties can range from 15% to 18% and on up to joint venture deals, in which the label recoups its out of pocket costs and then divides the remainder with the artist. In virtually all modern contracts, record royalties escalate both when a particular long-playing record achieves specified sales thresholds and on the artist’s subsequent long-playing records. Typically, the rate rises by a half a percentage point at net paid sales of 500,000 copies through normal U.S. retail channels, and another half a percentage point at 1,000,000 such units.

From the artist’s perspective, an essential element of the contract is the label’s commitment to record and to release the record. While the agreement will almost always provide for the recording of a minimum number of sides during each contract period, the company will be reluctant to guarantee the release of records. While the company will often agree to release a record within four to six months following delivery, the record, the company will refuse to release an album by an unproven artist between October 1 of a given year and January 15 of the following year (fearing that the album will be buried by the typical fourth quarter avalanche of product from established artists.) Typically, the artist’s sole remedy in the event that the company fails to complete the release is to terminate the term of the agreement. In some cases, the company will additionally agree to sell the unreleased album back to the artist in return for repayment of the recording costs of the album. In the Internet era, of course, the delivery commitment may change from “albums” to “sides,” and the occurrence of release commitments will undoubtedly increase to reflect the ubiquity of the Web. Moreover, the availability of low-cost recording equipment and the readiness of “dot-coms” to distribute online may well reduce the attractiveness of the majors, at

least to those artists (Chuck D being a prominent recent example) who do not require financial support and are willing to accept the uncertainties of Internet distribution.

In addition to securing a release commitment, the artist will wish to retain some creative control over the artist's records, including selection of material, choice of producer and studio, album artwork, and advertising and promotional materials. In recent years, record labels have been increasingly hesitant to grant such creative control to clients and instead have required artists to deliver "technically and commercially satisfactory" master recordings (very similar to the "satisfactory in form and content" standard encountered in the literary publishing world, see Section 5.1). The first of these criteria requires that the recordings' sound quality meet the engineering standards established by the member companies of the RIAA, an objective standard, while the requirement that the recordings be "commercially satisfactory" essentially commits the decision to the record label's evaluation of the likelihood that it can successfully market and sell copies of the recordings (a highly subjective evaluation, but one which is likely to be upheld so long as it is made in good faith. See Sec. 5.1)

An additional consideration requiring negotiation in recording agreements is the territory and duration of the grant of rights. Record labels normally insist on perpetual, worldwide ownership of recordings created under the agreement. (Indeed, in 1999, the Recording Industry Association of America secured an amendment adding phonorecords to the nine existing categories of "works for hire," which became the subject of bitter dispute in the Spring of 2000. By contrast, the author of a book generally retains its copyright, and music publishers and songwriters generally share the copyrights. In large measure, this is due to the collaborative nature of the recording process, which is more akin to films and television than to literary and music publishing.) However, an artist with significant bargaining leverage may be able to restrict the territory to one or more countries, allowing that artist to enter into foreign record agreements without the consent or participation of the original record company (although, in the age of the Internet, this may create problems in identifying the situs of particular sales and in enforcement proceedings.) In addition, the modern recording agreement will usually include some provision for video. This includes provisions for promotional video clips (including grants of rights and determination of ownership and payment) and also provisions for distribution of compilation promotional video clips or full-length videos of the artist, thus synchronizing the recording made under the agreement. Since David Bowie, who had retained ownership of his master recordings and compositions, was able to securitize them for \$55 million through what has become known as the "Bowie bond," several other prominent recording artists (e.g., James Brown) have also obtained similar loans (albeit in differing amounts), so artists (especially those with successful track records) can be expected to negotiate tougher terms with respect to ownership.

Unlike many other segments of the entertainment industry, the record company often signs an agreement with several individuals doing business as a group. This factor creates unique problems due to the reality that many groups disband, fire members, and hire new members. In addition, individuals within the group may pursue simultaneous solo careers. Accordingly, the recording contract will contain "leaving member" clauses, which will usually give the label options to renew the agreement if members leave the group. This clause is discussed in *Forrest R.B. Enterprises, Inc. v. Capricorn Records, Inc.* (see Section 9.5).

The recording agreement will also attempt to limit the amount of mechanical royalties to be paid by the record label in the U.S. and Canada through what is known as a “controlled compositions” clause. This clause reduces the mechanical royalties required to be paid by the record label to the music publisher for compositions appearing on the artist’s album, and “controlled” by the artist, to a rate less than the statutory rate (previously set by the now disbanded Copyright Royalty Tribunal) under copyright law. Typically, the rate will be 75% of the minimum U.S. statutory rate and 75% of the corresponding Canadian industry rate, as of one of three dates: (1) the date of commencement of recording (favored by the record companies), (2) the date of initial release of the subject record (obtainable by artists with strong bargaining positions), (3) the date of sale (obtainable only by the very strongest artists.) In addition, the company will insist upon limiting the amount of mechanical royalties it will pay with respect to a specific record, typically, 10 to 12 times the 3/4ths minimum rate. Further, the company will refuse to pay mechanicals on “free goods” (although, where the artist has decent bargaining power, the company may agree to pay mechanicals on 50% of LP-length “free goods,” but never on singles.) This cap applies to the album as a whole, so that if an artist selects compositions owned or controlled by third parties, and the record company is required to pay higher rates for the use of these compositions, the mechanicals applicable to controlled compositions will be reduced thereby. If the use of such outside songs causes the mechanicals on a particular record to exceed the contractual “cap,” the excess will typically be chargeable against the artist’s record royalties. (The mechanical licensing process is discussed in Section 9.2.3.)

Needless to say, a significant amount of negotiation between the artist’s attorney and the record label executive (usually the in-house counsel or vice-president of legal/business affairs) precedes the signing of a record label contract. In turn, significant modifications of the record label’s initial contract draft may be negotiated, but such negotiation is largely dependent on the bargaining leverage of the artist.

The calculation of record royalties is extremely complicated, as illustrated by the following article by Lionel S. Sobel, formerly Professor of Loyola Law School, Los Angeles, and still editor and publisher of *Entertainment Law Reporter* (and a co-author of the Third Edition of this book). The article first appeared in the October 1990 issue of *Entertainment Law Reporter*. While prices and rates may have changed, the basic analysis still holds.

Recording Artist Royalty Calculations: Why Gold Records Don’t Always Yield Fortunes (Second Edition)

by Lionel S. Sobel*

Every industry has a bench mark for success. In the record business, that bench mark is the “Gold Record.” Awarded by the Recording Industry Association of America to albums that sell 500,000 copies, Gold Records mean fame and fortune for their artists.

Or do they?

The answer (like the answer to so many questions in the entertainment business) is “yes” . . . and “no.” Yes, a Gold Record means fame. But does it always mean

*Source: 12 *Entertainment Law Reporter* (October 1990).

fortune? The answer to this question—at least insofar as recording artists are concerned—may be “no.” And the explanation for this apparent anomaly has nothing to do with “creative,” unethical or fraudulent accounting practices on the part of record companies. The explanation is found in the royalty provisions of recording contracts, many of which are “customary” in the industry.

What follows is an explanation for how a recording artist may be entitled to no royalties at all, even though his or her album ships “gold.”

The following explanation requires some introductory caveats. First, the hypothetical on which this explanation is based is just that—a hypothetical. Like all good law school problems, the facts of the “hypo” are intended to be realistic. But they are not the facts of any actual case, and (admittedly) they have been selected to illustrate certain points clearly (and even dramatically).

Second, the hypo includes—among its assumed facts—several contract provisions, all of which have a critical bearing on the outcome of royalty calculations. These provisions are believed to mirror provisions which appear in the contracts used by several actual record companies. But the provisions used in the hypo are only “samples.” There is no industry-wide “standard” contract, and the provisions described below do not appear in all record company contracts.

Further, even contracts which do contain the provisions on which this article is based are printed on paper; they are not carved in stone. In other words, everything is negotiable. The outcome of negotiations over these provisions, or any others, depends on how badly the artist wants the deal as compared to how badly the record company wants it. As always, relative “clout” (as well as negotiator skill) will determine the exact language of any record contract’s actual royalty provisions.

The hypothetical

Here is the hypothetical.

Ann Artiste signed her first-ever record contract with XYZ Records in the spring of 1989. The contract gave her a \$150,000 “recording fund” from which her recording costs, including an advance to the album producer, were to be paid; if her recording costs came to less than that, the balance would go to her as an advance against her royalties. Artiste completed recording her first album by the fall of 1989, and copies of it began shipping in January 1990. XYZ Records was delighted with the album, and Artiste was thrilled when the album shipped “gold.” However, when she received her first royalty statement, for the period from January through June 1990, her thrill turned to bitterness, because the statement showed that she was not entitled to any royalties whatsoever—that in fact the album was still seriously “in the hole” to the tune of \$111,837!

The statement indicated that 500,000 albums were shipped, half of them audio-cassette tapes and the other half compact discs. The statement also showed that 6,000 of the albums (3,000 tapes and 3,000 CD’s) were given away free to radio stations, critics and movie producers. The balance were shipped to record stores and distributors, 2 marked “free” for every 10 that were billed.

The recording costs for the album had come to \$110,000, and her producer received a \$30,000 advance against his royalties. This meant that \$10,000 was left in the “recording fund” when the album was completed; and Artiste received that \$10,000 herself as an advance against her own royalties.

XYZ’s suggested retail price is \$9.98 for tapes and \$15.98 for CD’s. Artiste’s contract with XYZ provides that she is to receive an “all in” royalty of 14% of the album’s suggested retail price. However, because this is an “all in” rate, the album producer’s royalty is paid out of Artiste’s 14%. In this hypothetical, the producer’s royalty is 3% of suggested retail, thus reducing Artiste’s royalty to an effective rate of 11%. (Royalty rates often escalate when sales exceed 500,000 units; but such escalations did not come into play on Artiste’s first statement, because to that point, only 500,000 units had been shipped.) Moreover, Artiste’s 14% rate applies only in

connection with albums sold in tape form, because in this hypothetical, her contract provides that “the royalty for albums sold in compact disc form shall be 75% of the otherwise applicable rate.” Thus, Artiste’s royalty rate for CD versions of her album is only 10.5%, less the producer’s 2.25% (i.e., 75% of 3%, assuming the producer’s contract has a similar rate reduction for CD’s), for an effective CD rate of 8.25%.

Artiste’s contract further provides that royalties are not payable at all with respect to records given away “to disc jockeys, radio and television stations, motion picture companies, distributors, sub-distributors, dealers, consumers, employees, publishers, reviewers, critics or others.” Moreover, the contract provides that royalties will be paid only on 90% of those records actually sold.

The contract also authorizes a number of deductions. Recording costs and royalty advances are deductible from royalties. XYZ also is authorized to deduct a “packaging charge” of 20% of the suggested retail price of tapes and 25% of the suggested retail price of CD’s.

The contract further provides that “the combined mechanical license rates payable by XYZ to music publishers for all selections embodied in an album shall not exceed $\frac{3}{4}$ s of the then-current statutory mechanical license fee multiplied by 10 for each album sold at XYZ’s invoiced price.” The contract also provides that “Artiste agrees to indemnify and hold XYZ harmless from mechanical license fees in excess of the amounts specified, and if XYZ is required to pay such excess, such payments shall be a direct debt from Artiste to XYZ which XYZ may recover from royalties otherwise payable to Artiste.”

Artiste’s contract also provides that if videos are produced, XYZ would pay the cost of producing those videos, but the amount paid would be treated as an advance against Artiste’s royalties. One video of a song on the album was produced, at a cost of \$75,000.

Finally, the contract provides that “In computing the number of records sold, XYZ shall have the right to deduct returns and credits of any nature and to withhold reasonable reserves therefor from payments otherwise due Artiste,” though “Such reserves which are withheld by XYZ shall not exceed 50% of payments otherwise due Artiste in connection with such records.” The statement showed that XYZ withheld \$125,000 in reserves.

Royalty calculations based on hypothetical contract

Here is how Artiste’s royalties were calculated by XYZ.

Number of albums

First, XYZ calculated the number of albums on which Artiste was entitled to receive royalties.

500,000	tapes and CD’s shipped
–6,000	tapes and CD’s given free to D.J.’s
494,000	shipped, 2 free with every 10
× 10/12	to determine number actually “sold”
411,666	sold (205,833 tapes; 205,833 CD’s)
× 90%	to calculate number on which royalties are payable
370,500	on which royalties payable (185,250 tapes; 185,250 CD’s)

Gross royalties

Next, XYZ calculated the gross royalties earned. This had to be done separately for tapes and CD’s, because the royalty rates and packaging deductions applicable to each are different.

Tape royalties:

\$9.98	suggested retail price
-2.00	packaging deduction of 20%
\$7.98	on which royalties are payable
\$7.98	on which royalties are payable
×14%	royalty rate
\$1.117	royalty per tape sold
185,250	tapes sold
×\$1.117	royalty per tape
\$206,924	gross tape royalties

CD royalties:

\$15.98	suggested retail price
-4.00	packaging deduction of 25%
\$11.98	on which royalties are payable
\$11.98	on which royalties are payable
× 10.5%	royalty rate for CD's
\$1.258	royalty per CD sold
185,250	CD's sold
× \$1.258	royalty per CD
\$233,045	gross CD royalties

Total gross royalties:

\$206,924	gross tape royalties
\$233,045	gross CD royalties
\$439,969	total gross royalties

Deductions

Next, XYZ calculated the deductions it was permitted to take from the total gross royalties Artiste's album had earned. The easiest deductions to determine were the \$110,000 in recording costs XYZ paid in connection with the production of the masters of the songs that are on the album; the \$30,000 advance to the album producer, the \$10,000 balance (of the \$150,000 recording fund) that Artiste received as an advance against her royalties; and the \$75,000 cost of producing the video. These amounts were deductible in full.

XYZ also was entitled to deduct "excess" mechanical license fees. The relevant contract clause provided that XYZ would have to pay no more than $\frac{3}{4}$'s of the then-current statutory mechanical license fee multiplied by 10 for each album sold at XYZ's invoiced price, and that any excess could be deducted from Artiste's royalties. The tape version of Artiste's album had 10 songs on it; and the CD version had those 10 songs plus 2 additional "bonus tracks."

Since all of these songs were written by someone other than Artiste, XYZ in fact had to pay mechanical license fees for all 10 songs on the tape and all 12 songs on the CD. Moreover, section 115 of the Copyright Act requires mechanical license fees to be paid "for every phonorecord made and distributed in accordance with the license"—including records that are given away free. Since January 1, 1990,

the statutory mechanical license fee has been 5.7 cents per song, per record. This means that XYZ had to pay mechanical license fees, at the rate of 5.7 cents per song per album, for all 500,000 copies of the album that were shipped—not merely for those that were “sold.” The total amount of these fees came to \$313,500, calculated like this.

Tapes:

\$0.057	license fee per song
× 10	songs per tape
\$0.57	license fee per tape
250,000	tapes shipped
× \$0.57	license fees per tape
\$142,500	total tape license fees

CD's:

\$0.057	license fee per song
× 12	songs per CD
\$0.684	license fees per tape
250,000	CD's shipped
× \$0.684	license fees per CD
\$171,000	total CD license fees

Total mechanical license fees:

\$142,500	tape license fees
+171,000	CD license fees
\$313,500	total mechanical license fees. By contract, however, Artiste agreed that XYZ would not have to pay more than \$175,987, calculated like this:
\$0.057	statutory license fee per song
× $\frac{3}{4}$	to reflect agreed $\frac{3}{4}$'s rate
\$0.04275	agreed $\frac{3}{4}$'s rate per song
× 10	maximum number of songs/album on which fees payable
\$0.4275	agreed maximum license fees/album
× 411.666	albums “sold”
\$175,987	maximum mechanical license fees payable by XYZ

Since Artiste did not write any of the songs on her album, her agreement that XYZ would not have to pay more than $\frac{3}{4}$'s of the statutory rate on albums “sold at XYZ's invoice price” could not bind the owners of the copyrights to those songs. As a result, XYZ had to pay \$137,513 in “excess” mechanicals:

\$313,500	mechanical license fees actually paid
– 175,987	maximum fees payable by agreement
\$137,513	“excess” mechanicals paid by XYZ

This amount also was deductible from Artiste's gross royalties.

Since Artiste's royalty rate was an "all in rate," XYZ was entitled to deduct the producer's royalties as well. In this hypothetical, the royalty provisions of the producer's contract are identical to those in Artiste's contract, except that his rates are net (i.e., not "all in") and are 3% for tapes and 2.25% (75% of 3%) for CD's. The producer's royalties came to \$94,293, calculated like this:

Tape royalties:

\$9.98	suggested retail price
-2.00	packaging deduction of 20%
\$ 7.98	on which royalties are payable
\$ 7.98	on which royalties are payable
× 3%	royalty rate
\$0.239	royalty per tape sold
185,250	tapes sold
×\$0.239	royalty per tape
\$44,275	gross tape royalties

CD royalties:

\$15.98	suggested retail price
-4.00	packaging deduction of 25%
\$11.98	on which royalties are payable
\$11.98	on which royalties are payable
× 2.25%	royalty rate for CDs
\$0.270	royalty per CD sold
185,250	CD's sold
× \$0.270	royalty per CD
\$50,018	gross CD royalties

Total gross royalties:

\$44,275	gross tape royalties
\$50,018	gross CD royalties
\$94,293	total gross royalties

Since the producer received a \$30,000 advance against his royalties, only an additional \$64,293 was payable to him on account of album sales.

Finally, XYZ decided to withhold and deduct \$125,000 in reserves against possible returns, concluding that \$125,000 was far less than 50% of the \$439,969 in royalties that "otherwise" would have been due Artiste, had XYZ not been entitled to deduct recording costs, advances, video costs, excess mechanicals and producer royalties.

XYZ therefore totaled its deductions as follows:

\$110,000	recording costs
30,000	advance to producer

10,000	advance to Artiste
75,000	video production costs
137,513	excess mechanicals
64,293	royalties payable to producer
125,000	reserve against possible reeturns
\$551,806	total deductions

Royalties payable

From here, it was a simple matter to calculate that no royalties were actually payable [and to Artiste, at that time, because her “gold album” was still substantially “in the red”]:

\$439,969	total gross royalties
– 551,806	total deductions
(\$111,837)	

Of course, Artiste has not really done as badly as it appears at first. She did receive \$10,000 in royalties in advance. And the \$125,000 reserve for returns is only that—a reserve. Her recording contract provides that the reserve must be “liquidated” by XYZ within two accounting periods following the period for which the reserve was withheld. Since the contract also provides XYZ will render accountings twice a year, XYZ will have to credit Artiste’s account with that \$125,000 in one year, if there are no returns; and that by itself would result in an additional royalty check to her of \$13,163 (i.e., \$125,000—111,837 = \$13,163).

Alternative interpretation of reserves

Moreover, it is possible that in withholding \$125,000 as a reserve for returns, XYZ actually withheld more than it was contractually entitled to withhold. XYZ interpreted an ambiguous contract provision in its favor. An alternative interpretation would have entitled Artiste to \$6,582 in additional royalties, immediately.

Here, word-for-word, is the ambiguous provision: “In computing the number of records sold, XYZ shall have the right to deduct returns and credits of any nature and to withhold reasonable reserves therefor from payments otherwise due Artist. Such reserves which are withheld by XYZ shall not exceed fifty percent (50%) of payments otherwise due Artist in connection with such records.” (This clause is quoted from a sample contract appended to an article written by Jay Cooper, of Cooper Epstein & Hurewitz, entitled “Recording Contract Negotiation: A Perspective,” 1 *Loyola Entertainment Law Journal* 43, 65 (1981).)

Note that this provision does not indicate whether the payments that would “otherwise” be due are the full amount of royalties earned before deductions are taken for recording and video costs, advances, excess mechanicals and producer royalties; or whether the amount “otherwise” due is the amount that would have been paid after such deductions are taken. If XYZ had interpreted the provision in the second manner, the calculation would have looked like this:

\$439,969	total gross royalties
– 110,000	recording costs
30,000	advance to producer
– 10,000	advance to Artiste
– 75,000	video production costs

– 137,513	excess mechanicals
– 64,293	royalties payable to producer
\$ 13,163	royalties “otherwise” payable
\$13,163	royalties “otherwise” payable
× 50%	maximum reserve percentage
\$ 6,581	maximum dollar amount of reserve
\$13,163	royalties “otherwise” payable
– 6,581	maximum dollar amount of reserve
\$ 6,582	royalty actually payable to Artiste

XYZ did not interpret the reserve provision in this fashion, because from its perspective a \$6,582 reserve for a first album by a new recording artist would be wholly inadequate, given the very real possibility that several months after the album shipped “gold,” tens of thousands, or even hundreds of thousands, of albums could be returned by record stores. Indeed, given the amount of record piracy that has occurred from time-to-time, horror stories have been told about albums that shipped “gold” and returned “platinum”!

There is a third possible interpretation of the reserve provision as well. Since the provision begins with the phrase, “In computing the number of records sold,” it appears as though the reserve could reduce (by a “reasonable” number) of records sold, with the dollar amount of the reserve then being limited to 50% of the payments “otherwise” due in connection with “such records,” meaning in connection with the reasonable number of records reserved.

Although this interpretation complies most closely with the literal language of the provision, it is unlikely that either Artiste or XYZ Records would have intended this interpretation. From Artiste’s point of view, the difficulty with this interpretation is that it imposes no numerical limit on the “reasonable” number of records held in reserve, thus making illusory the 50% limit on the dollar amount of the reserve. From XYZ’s point of view, this interpretation allows XYZ to withhold only half the royalties that would be payable on a “reasonable” number of records that may actually be returned, though no royalties at all are payable in connection with records that are in fact returned. Thus, depending upon which interpretation of the reserve provision is settled upon, Artiste may be entitled to nothing immediately, but an additional \$13,163 in one year, for a total of \$23,163 (the \$10,000 advance plus the additional \$13,163); or \$6,582 immediately, and an additional \$6,581 in one year, again for a total of \$23,163 (the \$10,000 advance, plus the \$6,582 royalty, plus the additional \$6,581 in a year). Still, \$23,163 is substantially less than the amount most people suppose is the prize for recording a “gold record.”

Effects of contract modifications

This is not meant to suggest that “gold records” never produce substantial royalties. In fact, even in this hypothetical, Artiste’s royalties would have been dramatically more significant, had small changes been negotiated in just four provisions of her contract with XYZ.

Negotiable modifications

First, historically, record companies paid royalties on 90% (rather than 100%) of records sold, because records used to be brittle and broke in shipment. Since record stores did not pay for broken records, record companies did not want to pay royalties for them either. A 10% breakage factor became customary between record companies on the one hand and stores and recording artists on the other. Today,

however, records do not break in shipment, and some record companies do pay royalties on 100% of all records “sold.” Assume that XYZ had been asked, and had agreed, to pay Artiste on 100% of her albums sold (rather than on 90%).

Second, with respect to free goods, record companies customarily shipped 3 free singles and 2 free albums with every 10 singles and albums sold to record stores. On the other hand, some record companies have reduced or even eliminated the number of free goods they ship. Assume that XYZ had been asked, and had agreed, to reduce the number of free albums it ships from the customary “2 on 10” to “15 on 100.”

Third, the deductibility of video production expenses often is a subject of negotiation. From the record company’s point of view, those expenses are equivalent to recording costs, which are fully deductible by record companies in calculating artist royalties, and thus ought to be fully deductible as well. From the recording artist’s point of view, video production expenses are equivalent to advertising and promotional expenses which are not deducted by record companies in calculating artist royalties. Assume that in this hypothetical, the issue of video production expenses had been raised in negotiation, and assume those negotiations had resulted in a compromise that permitted XYZ to deduct 50% (rather than 100%) of Artiste’s video production expenses.

Fourth, assume that the “excess mechanicals” provision of Artiste’s contract had been modified in three small ways. Assume that XYZ had been asked, and had agreed, to pay mechanicals on all albums “distributed” (rather than only on albums “sold”). Assume that XYZ had been asked, and had agreed, that the $\frac{3}{4}$ ’s rate limitation would apply only to “controlled compositions” (i.e., those written or otherwise owned by Artiste herself). And assume that XYZ had been asked, and had agreed, to pay the mechanicals on CD “bonus tracks.”

New royalty calculations

If these changes had been made, Artiste’s royalty calculation would have looked like this:

Artiste’s gross royalties:

500,000	tapes and CD’s shipped
– 6,000	tapes and CD’s given free to D.J.’s
494,000	shipped, 15 free with every 100 sold
× 100/115	to determine number actual “sold”
429,566	sold and on which royalties payable (214,783) tapes; 214,783 CD’s)
\$9.98	suggested retail price of tapes
– 2.00	packaging deduction of 20%
\$7.98	on which tape royalties are payable
× 14%	royalty rate
\$1.117	royalty per tape sold
× 214,783	tapes sold
\$239,913	gross tape royalties
\$15.98	suggested retail price of CD’s
– 4.00	packaging deduction of 25%
\$11.98	on which CD royalties are payable
× 10.5%	royalty rate for CD’s

\$1.258	royalty per CD sold
×214,783	CD's sold
\$270,197	gross CD royalties
\$239,913	gross tape royalties
\$270,197	gross CD royalties
\$510,110	total gross royalties

Producer's royalties:

214,783	tapes sold
× \$0.239	royalty per tape
\$ 51,333	gross tape royalties
214,783	CD's sold
× \$0.270	royalty per CD
\$ 57,991	gross CD royalties
\$ 51,333	gross tape royalties
\$ 57,991	gross CD royalties
\$109,324	total gross royalties

Since the producer received a \$30,000 advance against his royalties, only an additional \$79,324 was payable to him on account of album sales.

Deductions:

\$110,000	recording costs
30,000	advance to producer
10,000	advance to Artiste
37,500	video production costs
0	excess mechanicals
79,324	royalties payable to producer
125,000	reserve against possible returns
\$391,824	total deductions

Royalties payable to Artiste:

\$510,110	gross royalties
– 391,824	deductions
\$118,286	royalties payable

In this example, XYZ again deducted \$125,000 as a reserve against possible returns, on the theory that \$125,000 is substantially less than 50% of the \$510,110 that “otherwise” would have been payable if no deductions at all were permitted. If instead, the reserve provision of the contract is interpreted to mean that deductions (other than the reserve) must be taken in calculating the amount that “otherwise” would be payable, and only 50% of that amount may be held in reserve, the figures would look like this:

\$510,110	gross royalties
−266,824	deductions (without reserve)
\$243,286	royalty “otherwise” payable
× 50%	limit on allowable reserve
\$121,643	maximum allowable reserve
\$243,286	royalty “otherwise” payable
− 121,643	maximum allowable reserve
\$121,643	royalty payable

Thus, by virtue of small changes in four contract provisions, Artiste’s royalties leap from zero to \$118,286 or even \$121,643—serious spendable amounts by almost everyone’s standards.

NOTE

For a more detailed discussion and analysis of the negotiation of recording agreements, review the following:

(1) Don Passman, *All You Need to Know About the Music Business*, 4th ed. (New York: Simon & Schuster, 2000).

(2) Jeffrey Brabec and Todd Brabec, *Music, Money and Success*, 2d ed. (New York: Schirmer Books, 2000).

(3) Howard Siegel, ed., *Entertainment Law*, 2d Ed. (Albany: New York State Bar Association, 1996). A collection of articles on various areas of the entertainment industry. The phonograph industry chapter is written by David A. Braun.

9.2.2 Producer Agreement

A record producer is analogous to a stage, film or television director. The producer typically selects (and often writes or co-writes) the songs to be recorded, the musicians and vocalists (if any) who are to accompany the artist, the studios in which the recordings are to be made, and the engineers and/or “mixers” who are to provide technical assistance. Over the years, such producers as Roy Thomas Baker, Richard Perry, Freddy Perren, Phil Ramone, Kenny “Babyface” Edmonds and David Foster have contributed mightily to the success of the artists they produced. Although most recording artist agreements provide for “all-in” royalties, the producer will virtually always insist on a direct contractual link to the record company rather than trust the credit of the artist. The agreement between either the record label or artist and the record producer usually provides for the producer’s commitment to complete production on an album project, with the possible option for a subsequent LP. The producer is paid advances against royalties (usually 2% to 5% of retail, and, in addition, a portion of any escalations in the artist’s royalty, in some cases). Typically, the producer will not be paid until recording costs have been recouped at the “net artist rate,” *i.e.*, the royalty remaining after deduction of the producer’s royalty. Once the costs have been recouped at the net artist rate, the producer will be paid retroactively “from record one,” *i.e.*, from the first record sold. (For example, if the “all-in” rate is 15% of list, and the producer’s royalty is 3% of list, the net artist rate is 12%. Assuming that the all-in rate would yield a royalty of \$1.25 per copy, and assuming recording costs of \$100,000 and an advance of \$20,000 to the producer, the producer would receive a further \$5,000. The net artist rate of 12% equals \$1

per copy; 100,000 copies recoups the recording costs; the producer's gross royalty is 25 cents per copy [3/15ths, or 1/5th, of \$1.25], or \$25,000, so the company recoups the producer's \$20,000 advance and pays the producer the \$5,000 excess.)

9.2.3 Mechanical License

A sound recording involves two different properties: the recording itself, and the song which is performed on the recording. If the song was written by the artist (and/or, under most producer agreements, the producer), the "controlled composition" will provide that such song is deemed licensed to the record company at the contractually-specified rate. If, however, the song is owned or controlled by a third party, a separate license, called a "mechanical license" (because the first such licenses were issued when sound was reproduced by needles scratching—mechanically—on wax discs) must be obtained. A short agreement between the record label and music publisher grants the label a license to use the musical composition in CD or tape format (or via electronic distribution) on payment of an agreed-upon royalty. Most publishers use the so-called "Harry Fox" form (and most controlled compositions require the artist to secure licenses for third party compositions on terms no less favorable than those provided in the Harry Fox form), this being the form utilized by The Harry Fox Agency, Inc. (a subsidiary of the National Music Publishers' Association, which acts as mechanical licensing agent for more than 20,000 publishers, liaises with foreign mechanical rights collection societies, and maintains a Far East office in Singapore.)

A compulsory mechanical license may be obtained pursuant to Section 115 of the Copyright Act of 1976, 17 U.S.C. 115, but only (1) if an authorized recording of the song has already been commercially released and (2) if the license is obtained no later than 30 days after records are manufactured, and before records are distributed. In addition, Section 115 imposes strict and onerous reporting and payment requirements. A negotiated license is clearly preferable. Although record companies are frequently late in securing mechanical licenses (often due to lack of information from their artists and producers), this can be very costly.

For example, in *Cherry River Music Co. Simitar Entertainment, Inc.*, 38 F.Supp. 2d 310 (S.D.N.Y. 1999), infringement was found despite evidence of (1) of industry custom and usage to grant post-release negotiated mechanical licenses and (2) the publisher's awareness of the record company's proposed release and publisher's failure to respond to the record company's timely requests for negotiated licenses. The record company's form stated that if the publisher agreed with the proposed terms, the publisher should "indicate [its] acceptance by signing in the space provided" and returning a copy. The publisher never responded. The record company's clearance person did not take this amiss, because "others of whom she had requested licenses in the past often had not responded for several weeks." However, no license was forthcoming, and the album was released. Once this happened, Judge Kaplan observed, "the possibility that Simitar could obtain compulsory licenses ended." Simitar's post-release notice of intent to secure compulsory licenses was futile. Judge Kaplan similarly rejected Simitar's estoppel defense, stating that "[w]hile industry custom and usage or a prior course of dealing between the parties is relevant to determining the meaning of a contract, 'it cannot create a contract where there is no agreement by the parties . . . (citations omitted.) . . . Simitar had no reason to assume that Cherry

Lane's silence in response to its license requests reflected acquiescence because Simitar did not even know that its requests had come to the attention of the relevant person at Cherry Lane. . . . [Simitar] simply faxed requests . . . without calling to determine whether [Cherry Lane's representative] was there to receive them . . . and without following up on the requests at any time prior to Simitar's release of its infringing album . . ." Further, this was not the customary record situation; instead, Simitar had released an album of themes made famous on World Wrestling Federation broadcasts, and the album competed with that of one of the plaintiffs who happened to be a co-owner of some of the compositions on Simitar's album. Finally, Judge Kaplan recalled *Leo Feist, Inc. v. Apollo Records, N.Y. Corp.*, 300 F. Supp. 32 (S.D.N.Y.), *aff'd*, 418 F.2d 1249 (2d Cir. 1969), *cert denied*, 398 U.S. 904 (1970), where the defendant admitted liability but argued against substantial penalties on the basis of custom and usage, but the court stated that "it is not [an] excuse that the defendants relied upon a custom or trade practice of awaiting completion of manufacture and distribution of a recording before filing a notice of intention to use copyrighted material . . ." Simitar was preliminarily enjoined to cease distribution and to recall (at Simitar's expense) the 300,000 albums which it had distributed and which remained unsold at that point.

9.2.4 Film/TV Master Use License

A master use license is an agreement between a motion picture producer and the record label which permits the producer to synchronize a master recording in a motion picture or television program (as distinct from a soundtrack album agreement between the film studio and the label). In addition, such licenses are utilized in commercial situations, and in so-called "out-of-context" film trailers (in which a recording appears in a preview for a film which does not include the recording in its soundtrack.) Typically, the fee will depend upon (1) the prominence of the recording artist, (2) the success of the record (and how recent that success is relative to the date of release of the production), (3) the manner in which the recording is to be utilized in the production (for example, the fee will be higher if the recording is the focus of the scene, as when a couple is seen dancing but there is no dialogue; conversely, the fee will be lowest if the recording is merely heard faintly in the background of a scene in which characters are having a discussion), (4) the duration of the use, and (5) the budget (if the budget is low, it will not support large master use fees.) In addition to monetary concerns, the record company will need to satisfy itself that the usage will not damage the recording artist's credibility (for example, the use of a master recording by a professedly pacifist artist in a film whose hero is a machine-guntoting vigilante will raise questions) and, if the artist is a major star, the record company will probably seek the artist's approval (and may be required to do so by the applicable contract). Studios and advertising agencies typically pay equivalent fees to record companies and publishing companies for the use of masters and the songs embodied on those masters, so the fee may be determined by which party signs first.

9.2.5 Master Purchase Agreement

An agreement to sell master recordings, upon payment of a flat fee and/or payment or royalties on subsequent sales is referred to as a "master purchase agree-

ment.” This type of agreement is used to pick up older recordings; it is rarely used by record companies to acquire newly recorded but unreleased recordings. Several problems may arise in this area. First of all, recordings were not eligible for copyright registration until February 15, 1972, so the purchase of recordings created previous to that date requires closer attention to contractual files and UCC registrations than would be the case with recordings made thereafter. Secondly, the American Federation of Musicians and the American Federation of Television and Radio Artists may have claims for so-called “per record” royalties (AfofM) or additional scale payments (AFTRA) which may have been neglected by the seller. Moreover, many of these sales are made by trustees in bankruptcy, who are often not overly conversant with the industry, and whose paperwork may not completely address all of the purchaser’s concerns. (And, of course, it is important to remember that the same conditions which applied in *In re Waterson, Berlin & Snyder*, see Section 8.6.2.2, will apply with equal force in this area: post-bankruptcy, the buyer will be required to pay artist royalties.)

9.2.6 Custom Label Agreement; Pressing and Distribution Agreement

Two of the common agreements between a small independent record company and a major record label are the custom label agreement and the pressing and distribution (P&D) agreement. In the case of a custom record label (as has often been created for superstar talent), the major label will manufacture, release, and promote an agreed-upon number of recordings produced by the custom label, generally with payment of royalties to the custom label (which, in turn, will account to and pay the artists on its roster, although in many cases these functions are handled by the host company in the name of the custom label). In a typical custom label agreement, the host company will provide a fund from which the custom label can draw for advances to artists, and, in some cases, the host company will contribute toward the custom label’s overhead. These payments are customarily advances, although in some instances the record company will absorb the overhead contributions. The premise behind such agreements is usually that the custom label’s principal(s) will have an “ear to the ground” which will enable him/her/them to find artists who might otherwise go unnoticed by the host company and/or that the creativity of the principal(s), concentrated on a smaller artist roster than that of the host company, will result in quicker or more productive development of the artist than would be the case if the artist were simply one among many.

Under a P&D deal, the independent label essentially “rents” the services of the host company. The host company provides manufacturing, warehousing, distribution and collection services, charging the independent label a per-copy manufacturing cost plus a distribution fee (which can fluctuate in a wide range, depending upon the bargaining positions of the parties; in the heyday of A&M Records, for example, the fee charged by its distributor was probably in the 12%-13% range, whereas the fees charged to smaller or less successful companies might range from 18% on up.)

One of the concerns of independent companies is the level of commitment which will be devoted to its product by the host company’s sales, promotion and marketing personnel. There is a natural tendency to favor the host company’s own products in such cases, both because of loyalty to “in-house” projects and

because the host company usually stands to make a higher profit on its own products than on those it distributes for third parties.

9.2.7 Special Products Agreements

Special products agreements generally cover aftermarket uses of masters, including mail order compilations, such as those marketed via television through mail order and record club sales. In addition, companies such as Rhino Records are very active in re-issuing older product which is often lost in the shuffle because of the majors' concentration on the creation of contemporary hits. Such agreements are usually limited as to time and territory, and the royalty rates charged to distributors in these fields reflect such considerations as high distribution costs (e.g., record club distribution, characterized by high print and postage costs, as well as a long-standing custom of using free copies as an enticement to membership). While many artists are uncomfortable when their recording are used in compilations sold via TV and as product promotions (e.g., Goodyear Christmas albums), artists such as Slim Gaillard (whose TV compilations sold in the millions) and Andy Williams (a perennial on Christmas product) have benefitted greatly from such distributive channels.

NOTE

For additional readings and resources, see the following:

(1) Fredric Dannen, *Hitmen: Power Brokers and Fast Money Inside the Music Business* (New York: Times Books, 1990). The subtitle says it all.

(2) Simon Garfield, *Money for Nothing: Greed and Exploitation in the Music Industry* (London: Faber and Faber, 1986). A fascinating, if somewhat one-sided, series of stories involving the legal and business side of the music industry in the United Kingdom. Recording careers and legal entanglements of the Sex Pistols, Wham, Duran Duran, and Hazel O'Connor are discussed in detail.

(3) Mark Halloran, ed., *The Musician's Business and Legal Guide* (Englewood Cliffs, N.J.: Prentice-Hall, 1991).

(4) Sidney Shemel and M. William Krasilovsky, *This Business of Music*, 8th ed. (New York: Billboard Publications, Inc., 2000). A classic survey of the music business done in a practical way. Part One includes record contracts, foreign record agreements, producers, record clubs, labor agreements, and music videos.

(5) Joe Smith, *Off the Record: An Oral History of Popular Music* (New York: Warner Bros. Books, Inc., 1988). In dozens of short interviews with musicians, songwriters, producers, and record executives, one of the truly legendary executives in the business presents wonderful stories and insights regarding the development of the record industry in what now seems to have been its Golden Age.

(6) S. Chapple and R. Garofalo, *Rock n' Roll Is Here to Pay* (Chicago: Nelson-Hall, 1977). A comprehensive though dated overview of the history from an antilabel perspective.

(7) G. Burton, *A Musician's Guide to the Road* (New York: Billboard, 1981). A practical guide to training and organizing a successful music tour written by a professional musician.

(8) C. Davis and J. Willwerth, *Clive: Inside the Record Business* (New York: Wm. Morrow & Co., 1975). The autobiography of one of the most successful and controversial record executives from the mid-1960s on. While obviously dated in some respects, it presents a good "inside" look at how a record company operates.

(9) M. Silfen, Chairman, *Counselling Clients in the Entertainment Industry* (New York: Practicing Law Institute, Yearly Publications). The handbook to this annual symposium

presents an excellent source of material, specifically current contracts used in the record industry and recording agreements. The material is revised yearly.

9.3 RECORD LABEL BREACH

Most recording agreements will seek to limit the record company's obligations to record, release, or promote the artist's records. Nonetheless, a company's failure to promote may constitute a breach of contract, as evidenced in the *Contemporary Mission* case in Section 5.2.2. When the record company fails to perform and breach occurs, the nonbreaching party often faces a difficult task in proving damages. However, most courts approach the problem in a manner similar to *Phillips v. Playboy Music*. There need not be a perfect measure of damages, only credible evidence tending to show a discernible measure. In addition, the duty of the nonbreaching party to mitigate damages by seeking other contracts must take into account the factual limitations under which that party operates. Thus, in reality, a duty to mitigate does not exist in a substantial percentage of breach-of-contract situations in the music industry.

Phillips v. Playboy Music, Inc., 424 F. Supp. 1148 (N.D. Miss. 1976)

Sam Phillips gained fame during the early years of rock-and-roll by discovering and recording such noteworthy talents as Elvis Presley, Conway Twitty, and Johnny Cash. His partner, Harris, was also well known as a talent finder as well as a recording producer/engineer.

In 1972 Phillips and Harris secured an agreement with Playboy to produce and deliver eight LPs a year for two years. Playboy reserved the right, however, to reject any or all of the recordings. The deal called for the Phillips/Harris company to receive a \$40,000 advance on signing, as well as advances of \$5,000 per month during the first year, \$4,166.66 per month during the second year, and \$5,000 each time an LP was delivered.

Phillips/Harris proceeded to sign five recording artists and to deliver 50 master recordings (enough for five LPs) all but two of which were immediately accepted by Playboy; the other two were accepted after being rerecorded.

As is frequently the case in the entertainment industry, the executive who had made the deal left the employ of Playboy. A successor executive then called Harris and told him that the deal was being terminated because Playboy had decided to emphasize 45 rpm "singles" rather than LPs. Playboy ignored verbal and written requests for written confirmation of the message.]

SMITH, DISTRICT JUDGE

... The court finds that Playboy willfully and intentionally breached the contract with plaintiffs by refusing to ... pay plaintiffs two monthly payments during the first year of the term aggregating the sum of \$10,000 and the \$50,000 which was due in equal monthly installments for the second year of the term. ...

[The court then observed that the contract chose California law and proceeded to review California precedents concerning election of remedies and measure of damages.]

The plaintiffs did not elect to bring an action to enforce performance of the contract. They contend that the refusal of Playboy to serve a written notice of termination of payments effectively prevented them from seeking a new contract

for the production of records. Playboy contends that by virtue of [plaintiffs' counsel's] letter [requesting written confirmation of termination] plaintiffs elected to treat the contract as having been breached and to seek damages therefor.

The Supreme Court of California in *McConnell v. Corona City Water Co.*, 149 Cal. 60, 85 P. 929, 931 (1906) quoting from 1 *Sutherland on Damages* 113, said:

A party to a contract is entitled to recover, against the other party who violated it, damages for the profits he would have made out of it had it been performed. It is no objection to their recovery that they cannot be directly and absolutely proved. In the nature of things, the defendant having prevented such profits, direct and absolute proof is impossible.

Again, quoting from *Schumann v. Karrer*, 184 Cal. 50, 192 P. 849, 853 (1920), in *Steelduct Co. v. Henger-Seltzer Co.*, 26 Cal. 2d 634, 160 P.2d 804, 814 (1945), the court held that under California law a party “who wilfully breaches his contract cannot wholly escape on account of the difficulty which his own wrong has produced of devising a perfect measure of, or method of proving, damages.”

The California rule is that “a plaintiff must mitigate damages so far as he can without loss to himself.” *Bomberger v. McKelvey*, 35 Cal.2d 607, 220 P.2d 729, 733 (1950). [And a plaintiff who does not do “everything reasonably possible to minimize his own loss . . . cannot recover damages for detriment which he could have avoided by reasonable effort and without undue expense.” *Sackett v. Spindler*, 248 Cal.App. 2d 220, 56 Cal.Rptr. 435, 447 (1967)]

. . . Defendant argues that plaintiffs cannot recover in the action sub judice because plaintiffs did not make an effort to secure a substitute contract for the balance of the term thereby minimizing or eliminating the loss occasioned thereby.

The law is clear, as above-indicated, in California and elsewhere, [that] a plaintiff is only required to exercise a reasonable diligence in this regard. The nature, term, and other pertinent aspects of the contract, must be considered in light of the circumstances surrounding the undertakings of the contracting parties.

Here, the contract relates to a rather restricted, limited and sensitive area of personal services to be performed by plaintiffs. The agreement does not constitute a contractual agreement which can be readily or easily negotiated in the average or usual marketplace. In fact, the evidence shows that [Playboy's] familiarity with the successful performances of Phillips and Harris prompted [Playboy] to seek their services in the production of masters for Playboy. The parties were engaged in negotiating the contract over a substantial period of time before the agreement was finally consummated.

The evidence also creates the inference that a contract in the recording industry providing for the payment of nonreturnable advances is difficult to obtain. This is especially true when the producer has been under a contract of this nature and is seeking a new contract to take the place of one which has been cancelled by the manufacturer or distributor of the records.

The circumstances surrounding the breach developed in the evidence did not afford plaintiffs a reasonable opportunity to seek a contract with another manufacturer or distributor and reduce or minimize their loss. . . .

[The court thereupon proceeded to award damages of \$60,000 less studio and payroll costs saved by the shutdown of the Harris/Phillips operation and the obtaining of alternative employment by Harris. However, the court declined to

award \$250,000 sought as “special damages for the injury to the reputations” of Phillips and Harris as finders and developers of new talents, and of Harris as a producer/engineer.]

. . . While there is some evidence to support plaintiffs’ contention [in this regard], the court finds that plaintiffs have not offered evidence which justifies the court in awarding damages for an injury to the reputation of either Harris or Phillips or for the loss or damage to the goodwill of the partnership. The court does not find that the reputation of either Harris or Phillips has been materially damaged by Playboy in the termination of their contract. . . .

9.4 CONTRACT TERM: THE LABEL OPTION

One of the constant sore points in entertainment contracts is the option running in favor of the entertainment company. Record labels are no different from other companies in seeking to ensure the availability of a recording artist’s services for as long a period as possible, while avoiding firm commitments should the artist’s albums start to bomb. The label option is the answer.

In recording contracts, options may be for one or several years or for a succession of years (one year at a time). The more prevalent option today is one enabling the label to bind the artist one additional album or single at a time. Whatever the device, artists often chafe under such options in which conditions change and the original contract seems disadvantageous to the artist in his or her present circumstances.

In *PolyGram Records, Inc. v. Buddy Buie Productions* (see Section 5.1), the court held that the record company’s late exercise of its option was incurable. Under the contract, the right to exercise was circumscribed by the happening of an event and not dependent on a set date. This provided the plaintiff maneuverability, but it was not enough. The strictness with which courts view option clauses is further illustrated by the following article. This article is reprinted with permission from the March, 1991 issue of the Entertainment Law & Finance Newsletter © 1991 NLP IP Company. Mr. Ortner is a member of Proskauer Rose and Mr. Toraya is a member of Grubman & Indursky & Schindler, both of New York City. Many thanks to the authors for their kind permission to reproduce their work.

Using Option Clauses in Record Deals

by Charles B. Ortner and David R. Toraya

A CRITICALLY important element of any recording contract is the provision that permits a record company to exercise an option to extend the contract to continue to obtain an artist’s services after the initial term has expired. Both California and New York law now require exacting compliance with contractually stipulated procedures in exercising such an option. Thus, record companies must take care to ensure that the exercise of option periods is in accordance with a contract’s express terms.

The so-called “negative option” found in many recording agreements provides that, unless the record company takes some action, an option to extend the term is deemed to have been automatically exercised:

Artist hereby grants to Company separate and consecutive options to extend the

Term of this Agreement for additional Contract Periods. Such option shall be deemed to be exercised by Company unless it shall give to artist written notice to the contrary at any time prior to the date that the then current Contract Period would otherwise expire.

Although drafted to eliminate the need for the record company to act affirmatively, this clause has the potential for creating obligations the company may not want (for example, payments to an unsuccessful artist upon the inception of an additional contract period); ignoring the negative option clause would result in the record company being stuck with an artist it wanted to drop.

Alternatively, recording agreements contain a procedure whereby the record company must take affirmative action to exercise the option. For example:

Artist hereby grants to Company separate options to extend the Term of this Agreement for additional Contract Periods. Company may exercise each of those options by giving to Artist written notice at any time before the expiration date of the Contract Period which is then in effect. If Company exercises such an option, the Option Period concerned will begin immediately after the end of the current Contract Period.

Record company administrators charged with the responsibility for tracking option dates have been known to miss a few. Until recently, record company counsel seeking to rely on New York law looked to a case that held there would be no forfeiture unless the optionee suffered prejudice by a delay in notification. *Record Club of America v. United Artists Records Inc.*, 72 Civ. 5234 (S.D.N.Y. July 30, 1974) (Connor, J.). There, UA had granted Record Club a non-exclusive license to produce and sell all 8-track and cassette tapes derived from records and tapes manufactured or distributed by UA. The license agreement had an initial term of three years and provided Record Club with an option “exercisable by 90 days’ prior written notice” to renew for an additional term of two years. Although Record Club and UA had discussed the possibility of renewing at a higher royalty rate, some 10 months before the expiration of the initial term, Record Club instituted a declaratory judgment action to determine whether the agreement had previously been breached. Thereafter, while the action was pending, Record Club mailed to UA a written notice of its intent to renew 23 days before the end of the initial three-year term, beyond the deadline set forth in the contract.

The court relied upon *Sy Jack Realty Co. v. Pergament Syosset Corp.*, 27 N.Y.2d 449, 318 N.Y.S.2d 720 (1971), and a related line of real property cases which provide that a forfeiture may be prevented where the party seeking to exercise an option has made valuable improvements under a lease.

But, in 1989 the 2nd Circuit overturned that portion of the *Record Club* case which equitably excused the failure to timely exercise the option. *Record Club of America v. United Artists Records*, 890 F.2d 1264. Instead, the appellate court said:

Certainly there is no obvious forfeiture. Any physical or tangible property acquired by Record Club during its dealings with United may remain the property of Record Club. Since this is not a real estate matter, there are no “improvements” that must be left behind. Rather, it is a matter of an inability to buy goods from a particular purveyor.

The California view is that equity will intervene only in cases of fraud, mistake or unconscionability. *Simons v. Young*, 93 Cal.App. 3d 170, 155 Cal. Rptr. 460 (Ct. App. 1979).

Even so, when a record company fails to timely exercise an option, it could nevertheless perform as if it has exercised the option on time by, for example, paying recording costs, approving the selection of a producer and the compositions to be recorded, and engaging in actions clearly related to the artist’s next recording project.

This would permit the record company to argue that timely notice isn’t necessary

where the parties actually commenced performance under the extended contract. There is authority to support such an argument, but such authority has not been applied by the courts to recording agreements or other personal services contracts, and should be looked to as a last resort.

9.5 SIGNING MULTIPLE GROUP MEMBERS TO A SINGLE RECORDING CONTRACT

Record companies frequently deal with groups rather than individual artists. The company wants to have all members of a group under contract, but the company must cope with the reality that membership in a band undergoes frequent change. The contract must deal with the possibility that one or more members of the group may depart and that others will take their places. Not only must the contract keep continuity with the group as presently constituted, but it must also attempt to determine whether departing members are still committed to some kind of contract with the label.

As illustrated in the following cases, the consequences of changing group membership are not always properly anticipated. Language is used in a contract that creates ambiguities. Only a full trial can resolve the issues. The imprecise drafting of the pertinent contract provisions causes delay, expense, and uncertainty. In the case of *Zang Tumb Tumb Records Ltd. et al. v. Holly Johnson* (in Section 6.6.1), the “leaving member clause” is ultimately unenforceable.

Forrest R.B. Enterprises, Inc. v. Capricorn Records, Inc., 430 F. Supp. 847 (S.D.N.Y. 1977)

DUFFY, DISTRICT JUDGE

Plaintiff, the corporate employer of Forrest Richard Betts (Betts), a singer and guitarist formerly associated with the “rock group” known as the Allman Brothers Band (the “Band”), has moved for summary judgment and dismissal of the counterclaims in this action for a declaratory judgment freeing Betts as a solo recording artist from any contractual obligation to defendant Capricorn Records, Inc. (Capricorn), for whom, it is undisputed, the Band was exclusively obligated to record. The counterclaims sought to be dismissed allege, as against plaintiff and one Steven Massarsky, Betts’ business manager, tortious interference with the contract in question, and, as against plaintiff, Betts and Massarsky, tortious interference with the execution of, and refusal by Betts to so execute, a new management agreement with Phil Walden and Associates, who purportedly had been acting as Betts’ personal manager since July 1969.

It is uncontroverted that in November 1972, the Band and its members entered into a recording contract with defendant, and that in June 1976 the Band ceased to function as a group. Thereafter, Betts notified defendant that since he was no longer a member of the Band, he desired to perform as a solo recording artist for another company of his choice. The instant suit followed.

The sole question presented by this motion is whether, under the terms of the recording agreement, Betts is obligated individually to perform exclusive recording services for defendant as a solo artist, despite the Band’s dissolution as a recording group. The pertinent contractual provisions provide:

AGREEMENT made this 1st day of November 1972 by and between CAPRICORN RECORDS, INC. and/or its associates, subsidiaries, nominees, successors and assigns (hereinafter called "Company") and GREGORY LENOIR ALLMAN, CLAUDE HUDSON TRUCKS, JR., RAYOND BERRY OAKLEY III, JOHNNY LEE JOHNSON, FORREST RICHARD BETTS, professionally known as the ALLMAN BROTHERS BAND (hereinafter referred to as "Artist").

/jointly and severally‡

1. The Artist hereby grants and Company engages the Artist's exclusive personal services in connection with the production of phonographic records. If this agreement is with more than one individual, this agreement shall be binding upon each individual who is a signatory hereto as an Artist, jointly and severally.

Rider

... 3. If any member of the group shall leave the group or ceases to perform as a member of the group, the Artist and the Company may mutually designate a new member who shall be deemed substituted in this agreement in place of such leaving member and shall be automatically bound by all the terms and conditions of this agreement. The artist shall execute such documents as the company may require in connection therewith. Any such leaving member shall continue to be bound individually by the applicable provisions of this agreement, and shall continue to record for the Company under each and all terms and conditions contained in this agreement except that any such leaving artist shall receive A.F. of M. scale as his sole advance or payment for recording hereunder and shall receive a basic royalty of %.

Additionally, paragraph 14 provides in part: "This agreement may not be modified, except in writing signed by both parties. This agreement shall be subject to the laws of the State of Georgia applicable to agreements to be wholly performed therein. . . ."

Plaintiff contends that Rider paragraph 3 is the sole governing provision of the instant controversy, and since it is conceded that the space provided for the applicable royalty rate was never filled in nor made the subject of any subsequent written agreement, that the provision is unenforceable for lack of a material term. Defendant disputes the applicability of such clause in the present absence of the Band's existence as a performing entity. Relying instead on the "joint and several" language of paragraph 1, defendant contends that Betts is exclusively obligated as a solo performer, and that this obligation survives the existence of the group. Alternatively, defendant argues that if Rider paragraph 3 is found to control, then a triable issue of fact is presented as to the parties' intention regarding the applicable royalty rate.

I find it unnecessary to address this alternative contention, since I have resolved the threshold question of whether the Rider paragraph 3 controls in the

‡This phrase was typewritten into the contract, unlike the second reference to "jointly and severally" which appeared in printed "boilerplate" type, a fact to which defendant attributes great weight in construing the meaning of the phrase. It is unclear to me, however, whether this typewritten phrase (uninitiated by the parties, in contrast to other changes in the "boilerplate" language of the contract as a whole) refers to the preamble, so as to read "(hereinafter referred to jointly and severally as 'Artist')," or to paragraph 1, so as to read "The Artist jointly and severally hereby grants." . . . Both parties appear to have accepted the phrase as properly part of paragraph 1 and it shall be so treated for the purposes of this motion.

negative. This determination, essentially one of construction of an unambiguous provision, is clearly one for the court. . . .

Initially, I note that defendant, who essentially seeks to bind Betts under the contract, strenuously contends that this provision does not do so. Strangely, it is rather plaintiff who, in its efforts to free Betts, attempts to show the applicability of this clause in the first instance. With these positions in mind, I turn to an analysis of the language of the clause itself.

Although the provision addresses both a “leaving member” and one who “cease[s] to perform as a member of a group,” it further recites that “the artist and the company may mutually designate a new member who shall be deemed substituted in place of such leaving member. . . .” In so providing, it indicates a primary concern with protecting the integrity of the Band as a performing entity; that is, by allowing for the replacement of a member, the continued existence of the Band is contemplated. In the absence of an existing group, however, applicability of this clause would mean permitting the creation of an entirely new group, totally unrelated to the original Band. Such a situation could not possibly have been intended as encompassed within the four corners of this agreement.

The ultimate question, then, is whether the “joint and several” language of paragraph 1 merely describes the nature of Betts’ liability in case of breach, as urged by plaintiff, or represents a separate recording obligation on the part of Betts as a solo artist despite the Band’s non-existence, as posited by defendant. Supporting plaintiff’s position is the absence of any other reference in the agreement to individual services rights or responsibilities. However, militating against that construction is the fact that the contract was executed by the members of the Band, both individually and in their group capacity. There is no indication within paragraph 1 or otherwise in the agreement whether the parties intended their joint and several obligations to survive the life of the group. Although it is doubtful that the agreement would have been intended to create six separate recording contracts—with the Band and each member thereof—not only during the life of the group but also thereafter, the intention revealed by the language of paragraph 1 is sufficiently ambiguous to require some further showing. Since neither party has submitted any type of proof on this issue, and since, in any event, resolution of this issue will not obviate the need for a trial on the unrelated counterclaim asserted against plaintiff, Betts and Massarsky, unaddressed by the parties on this motion, summary judgment is denied at this time. . . .

9.6 INTERFERENCE WITH CONTRACT AND INDUCEMENT TO BREACH

Entrepreneurs in the recording industry are constantly looking for angles and advantages, and if it means luring someone away from another contract, that may be how the entrepreneur will proceed. In assessing the remedies that can be invoked against the defecting performer in the form of a negative injunction, the possibility of a suit in tort for interference with a contractual relationship must not be overlooked.

In *Roulette Records v. Princess Production Corp.*, the court interprets narrowly those circumstances under which an interference can occur, requiring actual knowledge of the existence of the contract allegedly interfered with. The dissent in the case would imply knowledge in circumstances such as those before the court. The *Bonner* and *Westbound* cases, have the court first considering the

validity of the contract (*Bonner*) before establishing potential liability for interference with the contract (*Westbound*).

**Roulette Records, Inc. v. Princess Production Corp., 224 N.Y.S.2d 204
(App. Div. 1st Dept. 1962)**

[After entering into an exclusive recording agreement with Roulette (on execution of which a \$25,000 advance was paid), Sarah Vaughan performed two songs in the soundtrack of the film *Murder, Inc.* The producer licensed a third-party record company to distribute records embodying Vaughan's soundtrack performances.

The producer did not have actual knowledge of the Roulette contract at the time the producer signed Ms. Vaughan. However, trade publications had carried announcements of the Roulette signing some eight months earlier. Roulette was aware of the Princess signing the next day but did not contact Princess for more than three months, and only after some 7,500 records had been distributed.]

MCNALLY, JUSTICE

... On this record the sole basis for recovery ... is ... intentional interference with the contractual rights of the plaintiff. ... Plaintiff was required to establish actual knowledge of the underlying agreement on the part of [Princess] in order to support a recovery for intentional interference therewith. ...

The trial court did not find and on this record the evidence is insufficient to sustain a finding of actual knowledge on the part of [Princess] of [Roulette's prior] contract with Sarah Vaughan. ... Although proof of actual knowledge may be predicated upon circumstantial evidence, this record does not demonstrate it.

We are also of the opinion that the basis for damages relied on by the plaintiff is too speculative. Plaintiff claimed it was entitled to damages equal to such profits as it would have made if it had sold the quantity of sound track records sold by defendants. Plaintiff was required to prove by a preponderance of the evidence that profits resulted from the phonograph recordings ... and was also required to advance a reasonable basis for estimating the amount. (Restatement, Torts, sec. 912, comment d, p. 581 et seq.)

The trial court found that there were 7,667 of said records of which 1,273 were distributed for promotional purposes. Although the evidence is that the balance of 6,394 was distributed largely on a consignment basis, the award of damages is based upon final sales thereof. The award does not reflect a deduction for payment of \$4,800 made by or for [Princess] to the musicians' union for the privilege of reproducing the sound track of the [supporting] instrumentalists ... nor does the award take into consideration that the phonograph records here involved include the recordings of other artists. Moreover, the testimony of plaintiff's witness is that the sale of 7,500 records does not normally serve to return the production costs. The sale of 6,394 records here involved would not appear to serve to recoup the expenses incident to their production. ...

Judgment [enjoining further distribution of the records and awarding damages to Roulette] reversed on the law and on the facts, and a new trial ordered, with costs to abide the final judgment in the action.

All concur except Stevens and Steuer, J. J., who dissent in dissenting opinion by Steuer, J. J.

STEUER, JUSTICE (DISSENTING)

. . . The relief of an injunction and damages has been attacked on several grounds. The first might be styled mechanical. The record was made not by Miss Vaughan but by a sound track of her voice. The contract provided for “phonograph records or reproductions of any kind of the performances by any method now or hereafter known.” A second contention, that the recording was made for purposes of exploiting the picture rather than for commercial sales of the record, both legally and factually barely survived announcement of the contention.

There are, however, two contentions that cannot be disposed of so abruptly. The trial court found that before making the record defendants knew, or ought to have known, of the contract between Miss Vaughan and plaintiff. It is claimed that nothing short of actual knowledge will suffice. This is not a precise statement of the law. Let us assume the accuracy of the text writers that there is no liability for negligent interference with contract (Harper and Jones, *The Law of Torts*, vol. 1, 509; Prosser, *Handbook of the Law of Torts*, 2d ed., p. 732, et seq.). There is quite a distinction between a negligent failure to know and a deliberate intent to stay in ignorance of what one suspects. . . . [I]t was proved that news of the contract was published in two trade papers, attesting to the general interest of such an occurrence in the milieu in which these people operated. It was also established through the testimony of defendants’ own expert that the practice was to inquire of the performer, before using him to make a record, whether the performer had existing contractual commitments. . . . [I]t was certainly a reasonable conclusion for the trier of the fact to draw that the failure of the defendants to inquire was due to a desire not to be told. If this is not the equivalent of knowledge, it would seem to be an extremely technical exception in the law, as well as one without any basis in policy. . . .

[Justice Steuer additionally disagreed with the majority’s conclusion that no damages had been proved.]

The judgment should be affirmed.

NOTES

1. Every few years, there is a flurry of label-change moves by artists from one record company to another. Since artists and producers tend to share the basic insecurities afflicting the general population, there is rarely a hiatus between contracts. If the artist is in the final stages of an existing contract, he or she will sign a “futures deal,” that is, a contract to come into effect immediately upon the expiration of the artist’s existing deal. If the artist, rightly or wrongly, feels aggrieved with the current label, a deal may be cut with a new label immediately after a notice of a breach is served on the current label. (Caution must be employed in the matter of timing; see *Westbound Records, Inc. v. Phonogram, Inc.*, *infra*.) To avoid such surprises and to afford themselves a period within which to remedy defaults and to improve artist relations, record companies routinely insert into their form agreements clauses providing for cure periods, usually 30 to 60 days.

2. Suits claiming inducement to breach, interference with contractual relations, or interference with prospective advantage are encountered frequently. Among the elements considered by the court are the following:

(a) A valid agreement must first be shown as a condition precedent to recovery. See, for example, *Israel v. Wood Dolson Co.*, 1 N.Y.2d 116, 134 N.E.2d 99 (1956); and *Hornstein v. Podwitz*, 254 N.E. 443, 73 N.E. 674 (1930).

(b) There can be no action for breach or inducement to breach a contract that is void or against public policy. See, for example, *Farbman & Sons v. Continental Casualty Co.*, 308

N.Y.2d 493 (1970), aff'd, 319 N.Y.2d 775 (1971); *Paramount Pad Co. v. Baumrind*, 4 N.Y.S.2d 393, 175 N.Y.S. 809 (1958).

(c) It must additionally be shown that the performer (who was allegedly interfered with) would have performed but for the defendant's interference. If the performer has previously repudiated the agreement, the defendant cannot be liable for dealing with the performer thereafter. See, for example, *Warner Bros. Pictures, Inc. v. Simon*, 251 N.Y.2d 70 (1st Dept. 1964), aff'd, 15 N.Y.2d 836, 205 N.E.2d 869 (1965); and *Dryden v. Tri-Valley Growers*, 65 Cal.App. 3d 990, 135 Cal.Rptr. 720 (1977).

(d) The defendant must be shown to have actively and intentionally interfered with an agreement to which the performer was then adhering; and the defendant must be the proximate cause of the ensuing breach by the performer. See, for example, *Israel v. Wood Dolson Co.*, *supra*.

(e) Defendant's knowledge of the prior agreement and of the plaintiff's claim is insufficient for liability to be found without active, intentional interference. See, for example, *P.P.X. Enterprise, Inc. v. Catala*, 232 N.Y.S.2d 959 (1st Dept. 1962). (g) Jurisdictions differ as to agreements terminable at will. If intentional interference is shown, the California courts deem it immaterial that the agreement is terminable at will by the performer. See, for example, *Freed v. Manchester Service Inc.*, 165 Cal.App. 2d 186 (2d Dist. 1958).

(f) While interference may be justified, justification is an affirmative defense; competition and economic gain, while matters of foundation, are not sufficient justification in and of themselves. See, for example, *Freed v. Manchester Service Inc.*, 165 Cal.App. 2d 186, 331 P.2d 689 (2d Dist. 1958); and *Augustine v. Trucco*, 124 Cal.App. 2d 299, 268 P.2d 780 (2d Dist. 1954). . . .

(i) However, where a party enters into a contract in good faith reliance on the representation that the other contracting party is free to do so, it is not necessary to delve into the facts surrounding disputes over the prior contracts of such other party to ascertain that such other party is free.

(j) There is no requirement that a party become a "trier of fact" to avoid a claim of interference. See, for example, *Wooden Nickel Records, Inc. v. A&M Records, Inc.*, Superior Court (Los Angeles) #104271, 11/7/75 per Caldecott, J.

(k) New York apparently places more of the burden on the plaintiff than California. To sustain an action for inducement to breach in an agreement which was terminable at will by the breaching party, it must be shown that defendant intended solely to injure plaintiff without any expectation of social or economic advantage, or that defendant used unlawful, dishonest or improper means to bring about the termination. See, for example, *Goldfarb v. Strauss*, 212 N.Y.S.2d 579 (1961); and *Noah v. L. Daitch & Co.*, 192 N.Y.S.2d 380 (1959).

(l) An active, intentional interferer is not permitted to avail himself of a contractual indemnity granted to him by the performer. See, for example, *Reiner v. North American Newspaper Alliance*, 259 N.Y. 250 (1932), in which a journalist obtained a ticket for the maiden voyage of the dirigible Hindenburg, the terms of which prohibited him from transmitting any account of the voyage, but who did so anyway, sending reports to NANA, to whom he was under contract. NANA was unable to secure contribution from the reporter because of its participation in the tort.

(m) Those dealing with country artists must be particularly careful. Under Sec. 47-15-113, Tenn. Code Anno., a successful plaintiff in an inducing-breach case is entitled to treble damages. However, as illustrated by *Lichter v. Fulcher*, 125 S.W.2d 501 (Tenn.App. 1938), there must be a "clear showing" of inducement in order to make this remedy available; if the standard is met, a treble damage award is mandatory and mitigation is *not* an issue. See *Howard v. Haven*, 198 Tenn. 572, 281 S.W.2d 480 (Tenn. 1955).

(n) Even when no contract exists, action may be available for interference with prospective advantage, a broader tort than inducement to breach of interference with contractual relations. See, for example, *Buckaloo v. Johnson*, 14 Cal.3d 815, 573 P.2d 865 (1975) (free competition is justifiable as long as a deal is merely contemplated or potential but may become wrongful once a relationship is established).

(o) An artist's present company will often send notices to other companies in the event of a dispute with the artist, advising them of the existence of a contract and threatening suit in the event of interference. While normally privileged, this can be hazardous if done without caution. See Rudell, "The Discreet Lawsuit," 179 *NYLJ*, 1, (March 13, 1978).

(p) Courts are reluctant to grant injunctions that might prevent a performer from earning a living as a performer, especially when there appear to be no viable alternatives available to

the performer. See *Machen v. Johanssen* and *Vanguard Recording Society v. Kveskin* (Section 6.3). However, in the case of a highly compensated star performer, the degree of vigilance exercised by the court may be somewhat more relaxed. Injunctive relief, against both the star and the interfering third party, is a distinct possibility.

Recording artists frequently move from small to large labels. At times, the smaller labels are little more than “farm clubs” for the “majors.” This movement was particularly prevalent in the 1960s to the mid-1970s.

At times, it was simply a case of an artist moving on at the end of a contract term; in other situations, the move was attempted in mid-term and accompanied by a claim that the smaller label was in material breach of its agreement with the artist, justifying termination on the part of the artist. At times, the artist was the prime mover; in other cases, the impetus came from the prospective new label.

The Ohio Players (a previously unsuccessful recording group) entered into exclusive five-year recording and music publishing agreements with Westbound and Bridgeport, its music publishing affiliate. The companies were headquartered in the Detroit area; the contracts were made with reference to Michigan law. The recording agreement provided, in part: “[Westbound] is not obligated to make or sell records manufactured from the master recordings made hereunder or to license such master recordings or to have [the Ohio Players] record the minimum [number] of record sides [specified in the agreement].”

The publishing agreement provided in part that “the extent of exploitation” of compositions written by The Ohio Players was to be “entirely within the discretion” of Bridgeport.

During the first 21 months of the term, Westbound advanced \$59,380 in recording costs, artwork, travel expenses, and recording session wages to the members of the group. In addition, although not contractually required to do so, Westbound advanced the members of the group an aggregate of \$22,509 to enable them to pay income taxes and settle litigation against them. There was a signing advance of \$4,000.

During the first 21 months of the contract, four singles and two LPs by the group were released. One achieved “gold status” (i.e., \$1,000,000 in sales under the then-current industry standard).

In the fall of 1973, The Ohio Players began looking around for a new deal. There was a dispute in the evidence as to whether The Ohio Players approached Phonogram first, or vice versa. In any event, Phonogram officials became aware of the desire of The Ohio Players to obtain a new recording agreement and referred the matter to the president of Mercury Records (a Phonogram label), who authorized his A&R (“artists and repertoire”—talent scout/talent coordination) representative to pursue the matter, but only if the group were free to contract. According to Mercury Records, upon becoming aware of the fact that the terms of the Westbound agreements had not yet expired, the president abruptly terminated the talks. The group, however, persisted and were told that negotiations could resume when the group was free. The group’s spokespersons represented that Westbound and Bridgeport were in breach and that the agreements could be terminated, whereupon Mercury Records responded with a draft agreement setting forth the offer which would be made if and when the group became free. The royalties provided in the draft agreement were to be the highest Mercury had ever paid. The group retained an attorney well known to Mercury

and its president, but previously unknown to the group or its representatives (and to whom the group may or may not have been “steered” by Mercury). This attorney, together with Mercury’s own attorney, worked together to find a means whereby the group could escape from its agreement with Westbound and Bridgeport. The final terms of the Mercury agreement were worked out verbally.

At this point, The Ohio Players acting through their new attorney repudiated the Westbound and Bridgeport agreements, and signed with Phonogram, Inc. and its music publishing affiliate. The Players received a \$50,000 advance, \$40,000 of which was to be held in escrow until Mercury was “of the opinion that there [was] no likelihood of litigation with Westbound,” and brought an action for declaratory judgment on the grounds that the recording and publishing agreements were invalid and unenforceable. At the same time, Mercury signed the manager who had served as the go-between in the negotiations with the group to a one-year contract as “National Promotion Director, Rhythm & Blues,” but, according to the opinion, the manager had “only vague and unspecified duties.”

The lower court granted summary judgment to The Ohio Players on the grounds that the agreements lacked mutuality. The court then granted summary judgment to Phonogram, who had been joined as a third-party defendant, on the grounds that Phonogram could not be liable for interference with a contractual relationship where there was no enforceable contract.

The Illinois Court of Appeals reversed both judgments. Portions of Justice Simon’s opinions in these cases follow.

Bonner v. Westbound Records, 394 N.E.2d 1303 (Ill. App. 1979)

... Proceeding to the merits, the plaintiffs contend that the recording agreement is unenforceable because no consideration passed from Westbound to The Ohio Players for their agreement to record exclusively for Westbound. Plaintiffs emphasize especially that the recording agreement lacked mutuality because even though The Ohio Players were obligated to make a minimum number of recordings, Westbound was not required to make even a single recording using The Ohio Players. . . .

Contrary to the conclusion reached by the circuit court judge, it is our view that consideration passed to The Ohio Players when they accepted \$4,000 to enter into the agreements. The fact that this payment was made by Westbound and Bridgeport by a check containing the notation that it was “an advance against royalties” does not disqualify the payment from being regarded as consideration. If sufficient royalties were not earned to repay Westbound the \$4,000, The Ohio Players would not have been obligated to return it. By making the \$4,000 advance, Westbound suffered a legal detriment and The Ohio Players received a legal advantage. . . . It is not the function of either the circuit court or this court to review the amount of the consideration which passed to decide whether either party made a bad bargain . . . unless the amount is so grossly inadequate as to shock the conscience of the court. . . . The advance The Ohio Players received, taken together with their expectation of what Westbound would accomplish in their behalf, does not shock our conscience. On the contrary, to a performing group which had never been successful in making records, Westbound offered an attractive proposal. The adequacy of consideration must be determined as of

the time a contract is agreed upon, not from the hindsight of how the parties fare under it. . . .

Although the \$4,000 payment to plaintiffs was not recited in either of the agreements, parol evidence was properly admitted to establish that the payment was made in consideration of the agreements. Where a contract is silent as to consideration, its existence may be established through parol evidence. . . . The agreements are valid and enforceable even if they lack mutuality because they are supported by the executed consideration of \$4,000 passing from the defendants to The Ohio Players. . . .

Even had the defendants not made the \$4,000 advance, the plaintiffs could not prevail. The circuit court judge erred in finding that “there was no obligation on the part of the defendants to do anything under their respective agreements” with The Ohio Players. During the first 21 months after the date of the recording agreement, Westbound expended in excess of \$80,000 to promote The Ohio Players and to pay their taxes and compromise litigation against them, and during this period the performers recorded four single records and two albums. The consistent pattern of good faith best efforts exerted by the parties during the first third of the term of the agreements demonstrates that they intended to be bound and to bind each other. Even contracts which are defective due to a lack of mutuality at inception may be cured by performance in conformance therewith. *Adkisson v. Ozment* (1977), 55 Ill.App.So. 108, 110, 12 Ill. Dec. 790, 370 N.E.2d 594.

Disregarding the performance under the agreements, the conclusion that the parties intended to be and were mutually obligated is also compelled by the rule that the law implies mutual promises to use good faith in interpreting an agreement and good faith and fair dealing in carrying out its purposes. (*Mueller v. Bethesda Mineral Spring Co.* (1891), 88 Mich. 390, 50 N.W. 319; *Michigan Stone & Supply Co. v. Harris* (6th Cir. 1897), 81 F. 928; *Martindell v. Lake Shore National Bank* (1958), 15 Ill.2d 272, 286, 154 N.E.2d 683; *Wood v. Lucy, Lady Duff-Gordon* (1917), 222 N.Y. 88, 118 N.E. 214.) [Set forth in Section 5.2.2—Eds.]

The plaintiffs attempt to distinguish *Wood v. Lucy* in three ways. First, they contend that the agreements in this case resulted in the transfer of their total creative efforts, while the designer in *Wood v. Lucy* transferred only limited rights. The reverse is true. The designer transferred not only endorsement rights, but the exclusive right to sell her designs and to license others to sell them. In other words, she transferred the identity of her creative efforts and her major source of livelihood as a dress designer. In this case, The Ohio Players retained the right to perform in nightclubs and in concerts. This is significant, for at the time these agreements were signed, the major portion of The Ohio Players’ income was from their live performances rather than their recording or songwriting efforts.

Next, the plaintiffs contend that the recording agreement is assignable and that an assignable contract is not subject to an implied promise of good faith. This distinction is not persuasive for the manufacturer in *Wood v. Lucy* had the exclusive right to sell or to license others to sell the designer’s creations (222 N.Y., at 90, 118 N.E., at 214), which in effect meant that his contract rights were assignable.

Finally, plaintiffs, relying upon provisions of the recording agreement and the publishing agreement, argue that those agreements expressly negated any im-

plied promise by defendants to perform in good faith, and *Wood v. Lucy* is, therefore, not applicable. . . .

Plaintiffs' argument is inconsistent with the meaning of the agreements, taken in their entirety; and also is at odds with the interpretation placed upon the agreements by the parties. Neither of the above quoted provisions states that Westbound and Bridgeport may sit idly by for 5 years, and they did not. Neither agreement states that Westbound and Bridgeport may act in bad faith. Neither provision quoted above contradicts the implied promises of good faith which we attribute to the agreements.

As we interpret the provision of the recording agreement quoted above, it states only that Westbound is not obligated to record the full minimum number of records set forth in another provision of the contract which The Ohio Players were obligated to record, or after going to the expense of making master recordings, to license them or make or sell records from the master recordings in the event the master recordings proved not to be suitable for that purpose. It does not mean, as plaintiffs urge, that Westbound is not required to make even one recording with The Ohio Players. And, the Bridgeport provision merely left to the discretion of the publisher the amount of advertising and publicity that would be given to any musical composition written by The Ohio Players. These provisions reserve to Westbound and Bridgeport discretion to control the content of recordings and the timing and number of releases. Flexibility of this type was essential in order to achieve the greatest success for The Ohio Players as well as Westbound and Bridgeport. Nothing in either the recording agreement or the publishing agreement or in the conduct of the parties demonstrates that Westbound or Bridgeport could or did use this discretion arbitrarily or in bad faith.

This interpretation of the recording agreement finds support in a seemingly unrelated provision of that agreement. The agreement was to run for an initial term of 5 years, but Westbound had the option to extend it for 2 years. If, as the plaintiffs contend, Westbound had absolutely no obligations under the contract, that extension would be practically automatic, for Westbound would have nothing to lose by exercising its option, and perhaps something to gain. The agreement would be essentially for one 7-year term, and the "option" phrasing a meaningless complication. Under our interpretation of the contract, however, the option provision makes perfect sense: Westbound could extend its right to the plaintiffs' services, but only at the cost of renewing its own obligation to use reasonable efforts on their behalf. The law prefers an interpretation that makes sense of the entire contract to one that leaves a provision with no sense or reason for being a part of a contract. . . .

The circuit court also erred in failing to give effect to the doctrine of promissory estoppel as a substitute for consideration. Decisions in Illinois as well as Michigan state that promissory estoppel may be relied upon to uphold a contract otherwise lacking in consideration or mutuality at the time of its execution, where injustice can be avoided only by enforcement of the promise. . . .

Westbound, in reliance upon the execution of the recording agreement by The Ohio Players, undertook a substantial business risk, incurring more than \$80,000 in expenses which it could recoup only if the recordings were successful. The recording agreement provided for royalty payments to The Ohio Players at percentage rates ordinarily found in the record industry in contracts providing for exclusive services of performers over a period of time. Assuming Westbound and Bridgeport were not obligated to do anything, the expenses and liabilities they

incurred in reasonable reliance upon enjoying the exclusive services of The Ohio Players for a 5-year period obligated The Ohio Players to perform as they promised to do.

Plaintiffs assert that promissory estoppel is not an appropriate doctrine in this case because it applies only when there is unjust enrichment. No Michigan authority is cited. However, because the agreements are supported by consideration, the defendants need not rest on the doctrine of promissory estoppel as a substitute for consideration. Our purpose in considering the promissory estoppel issue is primarily to illuminate the fundamental unfairness of the plaintiffs' claim, and so we shall, for the sake of argument, accept the plaintiffs' legal doctrine that unjust enrichment is required.

The plaintiffs' theory is that there is no unjust enrichment once Westbound recoups its advances from the royalties The Ohio Players have earned, and thereby suffers no actual loss. This, however, is possible only because of the success The Ohio Players enjoyed in recording for Westbound. If we adopt the plaintiffs' view and refuse to enforce the agreement, the outlook at the time promissory estoppel arises, when Westbound, relying on plaintiffs' promises, works and advances money on their behalf, but before those efforts succeed or fail, is this: if the venture fails, Westbound's money will vanish, but if The Ohio Players become a hit, they will allow Westbound to break even. Conversely, The Ohio Players can do no worse than break even, having nothing invested, and they may perhaps enjoy a great profit, largely due to Westbound's work and backing. It is obvious that no one would ever voluntarily take Westbound's end of this deal. The Ohio Players should not be able to impose it on Westbound by backing out of their agreement. For The Ohio Players to obtain for themselves the possibility of a bonanza, while imposing the risk of loss on Westbound, by breaking their promises after Westbound's reliance on those promises for a period of almost 2 years, would unfairly enrich The Ohio Players at Westbound's expense.

The Ohio Players had nothing to offer Westbound but an interest in their future, the chance to make a great deal of money by making them famous. The Ohio Players had nothing to lose; Westbound was to take all the risks. Having induced Westbound to perform as fully and faithfully as anyone could desire by signing these agreements, The Ohio Players now seek to deny Westbound the sole reward of its success. Their aim is to keep for themselves the fame and money which, judging by their past experience, they could not have acquired without Westbound's aid, by asserting that Westbound did not originally *promise* to do what it has already actually done. This the plaintiffs are estopped to do; even if the agreements were not originally supported by consideration, they became enforceable when Westbound performed in reliance on the promises of The Ohio Players, and indeed advanced additional monies not called for by the contract, to protect its investment.

The plaintiffs refer us to two recent English decisions involving exclusive service contracts for an extended period of time between songwriters and music publishers. The cases are: *A Schroeder Music Publishing Co. v. Macaulay*, [1974] 3 All E.R. 616 (H.L.); *Clifford Davis Mgt. Ltd. v. WEA Records Ltd.*, [1975] 1 All E.R. 237 (C.A.). These decisions are distinguishable. They void contracts not for lack of consideration but as unconscionable restraints of trade. Both of these cases emphasize that the exclusive service agreements were oppressively one-sided, and that the songwriters in both cases were not represented by attorneys

or advisers and lacked equality of bargaining power with the publishers. This is not the case here. The Ohio Players were represented by an attorney and advisers who conducted a portion of the negotiations with Westbound, and prior to signing their agreement with Westbound, The Ohio Players received competing offers from at least one other company engaged in the music recording business. Also, in contrast with the efforts expended and advances made by Westbound to promote and publicize The Ohio Players, there was no indication in either of the English decisions that there had been substantial activity by the music publisher which resulted in the distribution and sale of successful artistic creations produced by the songwriters.

For the above reasons, we conclude that the recording agreement and the publishing agreement were supported by consideration consisting of the cash advances and the mutual promises of the parties, and that the agreements may also be upheld by the doctrine of promissory estoppel. . . .

An additional portion of the circuit court's order which requires scrutiny is its termination of the recording agreement and the publishing agreement as of January 8, 1974, based on the finding that the agreements were severable and divisible into units of performance by the parties. We do not construe the agreements in that way. Partial performance by The Ohio Players was not the consideration Westbound and Bridgeport bargained for. Neither the recording agreement nor the publishing agreement specified that, by performing a specific portion of the agreement, The Ohio Players could be relieved from further performance. Nothing contained in the agreements indicates any intention of the parties that any single record, recording session or composition of The Ohio Players would serve as consideration for a specific unit of performances by Westbound or Bridgeport. Westbound and Bridgeport agreed to pay the royalty rates called for by the agreements because The Ohio Players promised to make a minimum number of recordings and to give Westbound and Bridgeport their exclusive services for 5 years.

A contract is not severable where the parties assented to all promises as a single whole. . . . A contract is non-severable if the striking of any promise or set of promises would destroy the basis of the entire bargain. . . . These agreements gave The Ohio Players benefits early, and were to reward Westbound only later, if at all. To treat them as severable would allow The Ohio Players to take Westbound's services as long as they desired, and then abandon Westbound as soon as Westbound commenced to benefit from the arrangement. Westbound could only lose. We find nothing in either agreement to warrant plaintiffs in accepting and rendering part performance and then repudiating the remainder of the contracts on the ground that their performance was severable. . . .

Because the agreements which this action involves were valid and enforceable and not susceptible of division and apportionment, the circuit court erred in granting summary judgment in favor of the plaintiffs on the various counts of the complaint seeking a declaratory judgment. The court also erred in denying summary judgment in favor of Westbound and Bridgeport on those counts raising only the issue of the validity and enforceability of the agreements.

Westbound Records, Inc. v. Phonogram, Inc., 394 N.E.2d 1315 (Ill. App. 1979)

. . . The foundation for the circuit court's summary judgment in favor of Mercury Records is shattered by our decision in *Bonner v. Westbound Records, Inc.*

Therefore, the summary judgment in this case must be reversed and remanded for further proceedings unless no issue of fact appears with respect to whether Mercury Records may have tortiously interfered with the contractual or business relationships between The Ohio Players and Westbound or induced the Satchell group to breach those agreements. . . .

Whether Mercury Records offered the Satchell group \$50,000 and the service of attorneys to desert their contractual obligation or whether Mercury Records innocently negotiated with and signed a performing group which it in good faith believed had no commitment to Westbound is a disputed question of fact.

Mercury Records explains that its initial contact with The Ohio Players was when its officials thought that the agreement between Westbound and The Ohio Players had already expired. However, Mercury Records concedes that after obtaining copies of the Westbound agreements which showed Mercury Records that the contracts had 3 years to run, it persevered in its efforts to persuade The Ohio Players to terminate their relationship with Westbound. Whether Mercury Records' pursuit of the Satchell group from September 1973 until January 1974 and the inducements offered the Satchell group to leave Westbound constitute proper or improper interference also presents an issue for the trier of fact. . . .

Westbound's allegations cannot be disposed of without the resolution of many disputed factual issues and without considering facts from which many inconsistent inferences could be drawn by a trier of fact. For these reasons the circuit court erred in granting summary judgment in favor of Mercury Records and this cause must be reversed and remanded for trial.

Westbound presents several theories to justify recovery against Mercury Records even if it had no valid contract with The Ohio Players; but, we need not discuss them. There was a valid contract, and none of the other theories advanced by Westbound offers it any advantage over its claim for interfering with or inducing a breach of a valid contract.

Reversed and remanded.

9.7 OWNERSHIP AND PROTECTION OF PERFORMERS' NAMES

Various legal theories protecting the individual and his or her name, image, and work product are considered in Sections 3.4 and 3.5. However, where performers form a group, and assume a group name, additional issues are raised. Is the name available? Is the domain name available for Internet use and, if so, who will control it? Federal and state trademark registers must be checked, and trade publications must be reviewed to make sure that some other group is not utilizing the name your client wishes to use (without having registered it). Once a group is satisfied that its desired name is available, steps should be taken to register it. But even before this, the issue of ownership must be decided. The name can be a valuable asset, not just in connection with records and performances, but as a merchandising tool. If the group functions as an informal partner, and one or more partners leaves the group, there may be a proliferation of new and old groups attempting to use the same name, resulting in often bitter and protracted litigation. It is therefore preferable to create a formal partnership, corporation, or limited liability company which will own the name, so that the multiple-group problem may be avoided if one or more members defects. In some instances, record companies seek additional protection by demanding that they, not the

group, own the group name. (Motown Records took this approach with the Jackson Five, although the group was able to call itself “The Jacksons,” this being their family name, when they moved to CBS Records in 1974.) More recently, many record companies have sought to control or own the artists’ domain names on the Internet.

NOTES

1. In *Stuart v. Collins*, 489 F. Supp. 827 (S.D.N.Y. 1980), a “little known” performer successfully sued “Bootsy” Collins and his label for infringement of his federally registered service mark in the group name “The Rubberband.” Stuart had made recordings on minor labels, but these were essentially used for promotional purposes, and, when Stuart testified, he did not know whether any albums had been sold. “Bootsy’s Rubber Band,” by contrast, had had several hit albums. The jury found trademark infringement, and awarded treble damages against Warner Bros. Records (which had released two further albums by Collins’ group after the onset of the dispute), both of which findings were sustained by Judge Leval, who stated that “[a]lthough awareness of an adverse claim would not necessarily make infringement willful, especially where the defendant believed in good faith that its name did not infringe, the evidence in this case rather showed that Warner gave short shrift to plaintiff’s claim out of arrogance and confidence that he would not mount any significant legal attack.” However, Judge Leval reduced the award substantially and refused to enjoin further use of the name by Collins and Warner, stating that damages were sufficient, since “[t]his was far from being the most reprehensible kind of willful infringement. It was not a case in which the defendant chose its name in an attempt to trade on plaintiff’s goodwill or in a bad faith effort to harm the plaintiff. Indeed there was no suggestion that either defendant was even aware of plaintiff at the times the name was selected and first promoted. Warner did not become aware of plaintiff’s claim until it had already launched the first Bootsy’s Rubber Band album and had expended considerable sums in publicizing the name. While Warner could have dealt with the plaintiff in a manner more sensitive to his legitimate rights, it could not have ceased using the Rubber Band name on receipt of plaintiff’s notice without incurring large expenses, sacrificing extensive promotion already undertaken, and risking to scuttle the successful launching of a new artist.”

2. In *Kingsmen v. K-Tel International Ltd.*, 557 F. Supp. 178 (S.D.N.Y. 1983), Ely, the former lead singer of a popular group, re-recorded a group hit, “Louie, Louie,” and the record company billed the performance as that of the group. Ely had left the group shortly after making the original recording, and the group disbanded altogether five years later. No member used the name professionally for the next nine years. A company specializing in nostalgia packages entered into separate agreements with Ely and another former member to re-record the song. The album cover listed “Louie, Louie . . . The Kingsmen” and stated “These selections are re-recordings by the original artists.” Although the group name had not been registered, the other five members (who had continued to receive royalties on the original recording and were therefore found not to have abandoned the group name) were able to utilize Section 43a of the Lanham Act, because of the likelihood of confusion. The court explained:

[w]e stress the ensemble nature of The Kingsmen’s music. Although the listener can discern the lead singer from the background vocals and music on a number of Kingsmen songs, the group’s “sound” is clearly a collective one. No one member of the group can be singled out as representing the essence of The Kingsmen’s performing style . . . Plaintiffs have also made the necessary showing of the likelihood of irreparable harm. Plaintiffs have submitted a number of record albums that are collections of popular dance music of the 1960s [which] appear to compete directly with the “60’s Dance Party” album produced by the defendants. . . . It is the misleading labelling of defendants’ album that is the gist of this action. For example, we would see no objection to defendants’ marketing of this

particular recording of “Louie, Louie” under the name of Jack Ely with the caption, “formerly of the Kingsmen” or “Jack Ely, lead singer on the original Kingsmen recording of Louie, Louie.” It is the representation that the rendition of “Louie, Louie” appearing on defendants’ album was rerecorded by the individuals collectively known as The Kingsmen that we find likely to confuse and therefore objectionable under the Lanham Act.

3. See Jay L. Cooper, “The Ownership and Protection of Performers’ Names,” 1 *ABA Entertainment and Sports Lawyer* (Fall 1982), p. 1.

4. For other cases in the long history of group name litigation, see:

(a) *Fugua v. Watson*, 107 U.S.P.Q. 251 (N.Y. 1955), *aff’d*, 182 N.Y.S.2d 336 (1959). Mark: “The Ink Spots.” Former members of the group “The Ink Spots” failed to enjoin use of the name despite prior written agreement. “Fraud on the public” theory was used because membership of the new group differed from that of the original group.

(b) *The Boogie Kings v. Guillory*, 188 S.2d 445 (La. 1966). Mark: “The Boogie Kings.” The first to adopt a group name acquires proprietary rights, and a former member of the group has no rights in the name and cannot transfer rights to another party. The court considered the band’s popularity and value of the group name.

(c) *Anderson v. Capitol Records, Inc.*, 178 U.S.P.Q. 238 (Ca. 1973). Mark: “Flash.” The first user of the mark was protected despite the second user’s earlier registration. The court also considered the likelihood of confusion and secondary meaning.

(d) *Ford v. Howard*, 229 N.W.2d 841 (Mich. 1975). Mark: “The Dramatics.” “The Dramatics” had not been disposed of and was therefore the property of all the partners in common. The partners had the right to use it *in common*, but not to the exclusion of the other partners.

Chapter 10

FILMS

10.1 THE CHANGING SCENE IN THE MOTION PICTURE INDUSTRY

Author John Gregory Dunne once commented that Hollywood motion picture deals had become more interesting than the actual films. The complexity and variety of legal and business problems confronted in the film industry today are unparalleled (a statement we also made in the first edition of this book; it was true then and is even truer now).

As Jack Valenti, Chairman of the Motion Picture Association, has observed, “Launching and promoting a film these days is not cheap.” Although the cost of producing a major studio movie increased by nearly 600 percent between 1980 and 1998, Valenti reported at the NATO/Show West '99 convention that the cost of producing a film at one of the major studios in 1998 decreased 1.3 percent—to \$52.7 million—and his 2000 report indicated a further decline in production costs in 1999 of \$1.2 million per film, to \$51.5 million. This downward trend is a drastic change compared with the steady increases in preceding years.

Valenti's 1999 report indicated that the cost of duplicating prints, advertising, and marketing in 1998 increased 13.5 percent over 1997, the largest increase in six years, the average cost of print and advertising (P & A) climbing to \$25.3 million in 1998. But his 2000 report indicated that marketing costs declined in 1999 for the first time in twenty years; average costs fell by \$780 thousand to \$24.5 million. Putting together the negative cost of films and the P&A, the total cost of producing and marketing an average major studio film was \$78 million in 1999, an increase of 3 percent over the 1997 average. So overall the historical cost of producing and marketing films has increased, though the rate of increase has slowed. Although production cost figures are obviously skewed upward by the mammoth budgets of such films as *Titanic*, *Waterworld*, *Batman & Robin*, *Armageddon*, and the like, the cost of producing even low budget movies is very substantial. It is worth noting that although the U.S. box office hit a record \$7.5 billion in 1999, this was due to price increases—the number of admissions actually declined by 1.1 percent, a potentially ominous figure.

Despite the large cost of producing and marketing films and the great risk involved, the film industry is still a profitable venture. In 1999, the total domestic box office amounted to some \$7 billion, a record. The studios' share amounted to nearly 45 percent. In addition, the studios' share of domestic home video revenues (approximately \$22 billion) amounted to \$15 billion. Nonetheless, the studios are more determined than ever to cut production costs across the board. The reason for this is that the rate of return on their investments from theatrical distribution is low—an estimated 5 percent—and most of their profits come from home video and television distribution. The object now is to make cheaper, better films. Costs are being cut in three distinct ways:

1. Although proven box office superstars like Tom Cruise, Tom Hanks, Julia Roberts, Jim Carrey, John Travolta, and Harrison Ford command eight-figure guarantees (often cast as advances against shares of gross receipts, whereas most “above the line” talent—principal actors, producers, writers, directors,—share only in the net—the definition of *net* being a major bone of contention discussed below), many actors, even relatively major ones command far less than the fees they formerly received. Furthermore, many stars like Nick Nolte and Tim Allen have in recent years voluntarily accepted significantly less than their regular rates to land desirable roles.
2. The studios have demonstrated a greater readiness to drop or to cancel productions with potential runaway budgets.
3. Some of the perks are being eliminated for all but the A-list stars. For example, studios have begun to cut back or eliminate production housekeeping deals, under which star talents are provided with office space (sometimes buildings) on the lot, together with staff and development/production funds.

In the United States, the film industry is dominated by seven major film studios that engage in the financing, production, and distribution of films, and some are involved with exhibition as well. Most of the majors are subsidiaries of multinational conglomerates: Universal (acquired by French conglomerate Vivendi from Seagrams of Canada); Sony Pictures (a unit of Japan's giant electronics multinational); Twentieth Century Fox (a subsidiary of Australian-based News Corporation); MGM/UA (principally owned—for the third time—by Kirk Kerkorian); Warner Brothers, Inc. (a unit of AOL Time Warner Inc.); Paramount Pictures (a subsidiary of Viacom, Inc., which owns Showtime, The Movie Channel, and CBS Inc.); and The Walt Disney Corporation (which releases under a variety of names and also controls ABC, ESPN, and, of course, its signature theme parks around the world).

Independent production companies have been a factor in Hollywood for many years. Of the 461 feature films released in 1999, the “majors” accounted for only 213 (down from 221 in 1998). Strongly financed independent companies have come forth from time to time to challenge the supremacy of the majors, but most have ended in bankruptcy and closed, including Carolco, home to the “Rambo” films and other Stallone and Schwarzenegger action/adventure films; Orion, home to a long string of films by Woody, Allen and the Academy Award winners *Dances with Wolves* and *Silence of the Lambs*; De Laurentiis Entertainment Group; Weintraub Entertainment Group; Cannon Films; New World Pictures; Kings Road; and Nelson Entertainment.

At this point most of the more famous production companies are owned (or at least financed in whole or in part) by major studios. Miramax (which won more

Academy Awards during the 1990s than any of the major studios for such films as *The English Patient* and *Shakespeare in Love*) is owned and financed by Disney. Castle Rock (of which Rob Reiner, director of *When Harry Met Sally* and *A Few Good Men*, is a principal) and New Line were acquired by Turner Entertainment which, in turn, was acquired by Time Warner, Inc. (and later merged into AOL.). Other top producers such as Jerry Bruckheimer (whose production company has an agreement with Disney) and Arnon Milchan's Regency Enterprises (formerly allied with Warner Brothers, now at Twentieth Century Fox) have agreements with major studios for financing and/or distribution.

It is very difficult for an independent film company to survive over the long term without an agreement with a major studio. The reason for this is that independents are not diversified conglomerates, so one or two flops can exert a tremendous impact on a company that survives on a hit-by-hit basis. Also, the major studios enjoy a regular revenue stream from exploitation of their substantial movie libraries in home video and on cable and satellite. In fact, Ted Turner was able to create the basis for a cable network (TNT) merely by purchasing MGM's film library. The independents do not have such vast libraries, so their revenue streams are precarious. Every so often, a film will be produced for next to nothing, and achieve huge numbers. Artisan's *Blair Witch Project* (\$1 million production cost, \$175 million domestic box office) is an example of this phenomenon. Studios and other distributors and exhibitors flock in growing numbers to events such as the Sundance Film Festival and the American Film Market hoping to find similar gems. While "small" films have shown up very well in the Academy Awards and other awards arenas in recent years, the vast majority of the country's screens are effectively controlled by the majors, and it's very difficult for a true independent to reach a broad market.

Only a few years old, Dreamworks SKG (formed by legendary director Steven Spielberg, along with top executives Jeffrey Katzenberg and David Geffen) is virtually an eighth major. Although its plans to create a new studio facility in the Playa del Rey area of Los Angeles were aborted, SKG has proven its weight and staying power through such films as *Saving Private Ryan*, *American Beauty* (winner of eight Academy Awards in 2000), and *Gladiator*.

Overall, the film industry is a complex organization involving all aspects of law in some way, shape, or form. However, the key to understanding the law is to understand the industry itself. This chapter attempts to provide an overview of the film industry.

NOTE

An extremely lively literature has developed around the film business. Some representative examples:

- (a) Nestor Almendros, *A Man with a Camera* (New York: Farrar Straus Giroux, 1984). Observations on the art of cinematography by an Academy Award winner.
- (b) Steven Bach, *Final Cut* (New York: Wm. Morrow & Co., 1985). The amazing story of the making of *Heaven's Gate*, which destroyed United Artists as a viable studio.
- (c) Peter Bart, *The Gross: The Hits, The Flops—The Summer that Ate Hollywood* (New York: St. Martin's Press, 1999). An intense look at the summer season of 1998, and the film-making machinations behind it.
- (d) Stan Berkowitz and David Lees, *The Movie Business: A Primer* (New York: Vintage Books [Random House] 1981). An overview of the filmmaking process, less technical and more anecdotal than Squire, *The Movie Business Book*, cited below.

(e) Bernie Brillstein (with David Rensin), *Where Did I Go Right?* (New York: Little Brown & Co., 1999).

(f) Roger Corman (with Jim Jerome), *How I Made a Hundred Movies in Hollywood and Never Lost a Dime* (New York: Random House, 1990). A memoir by the “King of the B Movies.” Truly a legend in his own time, Corman launched or assisted the careers of talents as diverse as Jack Nicholson, Dennis Hopper, Jonathan Demme, Ron Howard, and James Cameron.

(g) Bill Daniels, David Leedy, and Steven D. Sills, *Movie Money: Understanding Hollywood's (Creative) Accounting Practices* (Los Angeles: Silman-James Press, 1998).

(h) John Gregory Dunne, *The Studio* (New York: Touchstone Books [Simon & Schuster], 1969). A memoir of the author's year at Twentieth Century Fox in the late 1960s.

(i) William Goldman, *Adventures in the Screen Trade* (New York: Warner Books, 1984). A funny, caustic inside look at the business from one of the great screenwriters (*Marathon Man*, *Butch Cassidy & The Sundance Kid*, *All the President's Men*). A classic in the field. The “sequel,” *Which Lie Did I Tell?*, was published by Pantheon Books (New York, 2000).

(j) Art Linson, *A Pound of Flesh* (New York: Avon Books, 1993). A street smart and excruciatingly funny account of the producer's role in films.

(k) Mark Litwak, *Dealmaking in the Film & Television Industry* (Los Angeles: Silman James, 1994).

(l) Sidney Lumet, *Making Movies* (New York: Alfred A. Knopf, 1995). A director's-eye view of the process, by the maker of more than forty films.

(m) David McClintick, *Indecent Exposure* (New York: Wm. Morrow & Co., 1982). The battle for control of Columbia Pictures. Although not specifically relevant to today's facts, it illustrates a recurrent Hollywood theme.

(n) Schuyler M. Moore, *The Biz: The Basic Business, Legal and Financial Aspects of the Film Industry* (Los Angeles: Silman-James, 2000). An excellent (and often hilarious) primer on how the industry works (or *fails* to work).

(o) Pierce O'Donnell and Dennis McDougal, *Fatal Subtraction: How Hollywood Really Does Its Business* (New York: Doubleday, 1992). The story of the epic battle between Art Buchwald and Paramount, told by Buchwald's attorney, with an introduction by Buchwald.

(p) Ralph Rosenblum and R. Karen, *When the Shooting Stops . . . The Cutting Begins: A Film Editor's Story* (New York: Da Capo Press, 1986).

(q) Jason E. Squire, ed., *The Movie Business Book* 2d ed. (New York: Simon & Schuster/Fireside, 1992). A collection of articles by industry professionals detailing the filmmaking process from the beginning of the creative process through theatrical distribution and beyond.

(r) Michael Wiese, *Film & Video Financing* (Studio City, Calif: Michael Wiese Productions, 1991).

(s) Michael Wiese, *Film & Video Marketing* (Studio City, Calif.: Michael Wiese Productions, 1989).

10.2 PRODUCING FILMS

10.2.1 The Evolution of the Studio Model

From the early 1920s until a few years after World War II, the major studios controlled virtually every aspect of film financing, production, and distribution (including the lion's share of exhibition). Actors and directors generally worked exclusively for specific studios under long-term contracts and exercised little or no control over the films to which they were assigned or the roles they played. After World War II, however, came the twin terrors of television and antitrust litigation. The studios were forced to divest themselves of their theatre holdings and to deal with a new, independent attitude on the part of major stars such as Kirk Douglas (producer of *Spartacus*) and Jimmy Stewart (producer of *Rear Window*). The old star system came apart rather quickly. Since that time, actors and directors have almost always worked on a film-by-film basis. While the studios still serve as the primary (but by no means only) source of financing, they no

longer possess the power to assign talent to productions in which they do not wish to participate (which was one of Olivia De Havilland's principal grievances against Warner Bros. in the case set forth in Section 2.3). Nor do they necessarily control every aspect of production. Top actors will often have the right of approval over scripts, directors, and other creative elements.

However, negotiation on a film-by-film basis is not the sole business model. Some actors, directors, writers, and producers have secured long-term contracts with major studios. Mel Gibson, Eddie Murphy, Jerry Bruckheimer, and James Cameron's Lightstorm Entertainment have, or have had, multiple-picture deals with major studios.

Studios generally have few problems finding the funds to finance movies. Their biggest problem is deciding which movies to finance. Although many of them have reduced the level of their support for the development process, hundreds of projects—few of which will ever reach theatres—are “in development” at each studio at any given time. A studio will put up a small fund for preliminary steps such as acquiring rights to pre-existing works, commissioning scripts, and making initial payments to producers. For the production phase, most studios have arrangements with banks. Major studios are low-risk for bank loans because of their track records and because they have “slates” of cross-collateralized pictures providing multi-million dollar assets to serve as collateral. Furthermore, although a film may be a failure at the box office, most studio films make back their investments over the long-term with the ancillary markets.

Nevertheless, American studios, confronted with the huge production budgets attached to some recent films, have turned more and more to co-financing arrangements (e.g., Twentieth Century Fox and Paramount on *Titanic*, Dreamworks SKG and Paramount on *Saving Private Ryan*) under which (typically) the studios will contribute production monies in agreed shares; one studio will acquire rights for the U.S. and Canada, the other for the rest of the world; and revenues will be apportioned in accordance with a prearranged formula, another strategy followed by studios as well as independents is so-called off-balance-sheet financing, in which interests in slates of films are syndicated to outside investors. For example, Castle Rock Entertainment made a six-year, eight-picture deal with Chase Manhattan Bank in August 1998 under which Chase would provide \$200 million to finance two-thirds of the production costs of eight films, the distributing studio would take a 15 percent fee off the top, and Chase would recoup its investment from the remainder. (See Carl Diorio, “Major Moolah” *The Hollywood Reporter*, January 29, 1999, p. 14.)

10.2.2 Producing Films: The Studio Model

10.2.2.1 Acquisition of Underlying Rights

Every project in the entertainment industry begins with a creative expression of an idea. Typically, the prospective producer of a film begins by acquiring the rights to an existing play, book, screenplay, or treatment for a screenplay. Sometimes (as illustrated in Robert Altman's bitterly satirical *The Player*) the project begins with just an idea—a“pitch.” The purchase of rights is usually made in the form of an option agreement calling for an initial period of one year with one or more potential extensions of one year each. If the owner of the underlying material has a number of eager suitors, the option payments (as well as the ultimate

payment upon exercise of option) can be quite substantial, and the exercise of the option may be subject to conditions precedent. Conditions can include the requirement of obtaining a funding commitment from a studio or a firm commitment from a leading actor or director, or, perhaps, the creation of a final script. In most cases, the option payments are small and no conditions attach. Usually, an agreement for the purchase of rights of an idea calls for payments in a range between five figures and millions. Factors that determine the value include the past record of the writer, the marketability of the idea, and whether a major actor or director is interested in the project.

From the standpoint of the producer, it is important to get the broadest possible grant of rights, including the right to distribute the film in all formats presently known and that may be invented in the future. A major studio will not accept anything less than complete rights to all markets including, but not limited to, domestic and international theatrical release, the home video market, broadcast and cable television (including pay-per-view), and Internet distribution. Home video, once considered an ancillary market, now accounts for four times as much studio revenue as theatrical distribution, at least in the United States.

In addition to all rights in the basic work, the producer also will want to acquire all rights in the characters embodied in the property, in order to do remakes, sequels (and even “prequels” such as the “first” episode of *Star Wars*), spin-offs featuring characters from the original work in new stories, and to exploit all of these derivative works in all present or future formats. (The consequences of the failure to secure the right to exploit material in new formats are explored in Section 4.2.) However, as we saw in Section 4.2.2, even a complete grant may be limited by the overriding application of the Copyright Act.

Many deals involve adaptations of pre-existing materials. An existing work (e.g., a John Grisham bestseller) is somewhat “pre-sold”; there is already a “buzz.” But many projects are based on original material. However, where original material is involved, a studio will generally be more hesitant to enter the development process and, where material is offered by a writer, will normally accept only something at or close to a shooting script. On the other hand, proven writers can sometimes get deals on the basis of an outline or a treatment. (In his classic *Adventures in the Screen Trade*, veteran writer William Goldman tells how he would put together a dozen outlines and send them around to see if he could generate any interest; if not, he’d junk the twelve and write twelve more, until he found something saleable.) Joe Eszterhas, author of the screenplay for *Jagged Edge* and other films, once sold an unfinished script for \$3,000,000. This script went through revisions, as is the case with most films, but the studio eventually returned to the original script and the film was released to considerable success as *Basic Instinct*. Eszterhas wasn’t finished pushing the envelope: he went on to make a \$4,000,000 deal with Paramount Pictures on the basis of a “pitch.” Eszterhas was to receive \$1,000,000 for signing, a further \$500,000 on completion of a second draft, \$1,900,000 when the film was greenlighted, and another \$500,000 if the film surpassed a certain box office threshold.

10.2.2.2 The Production/Financing/Distribution Deal

Having secured the necessary rights (and, in some instances, where the producer has a proven track record and/or an ongoing involvement with a studio), the producer is in a position to move ahead to secure a production/finance/distribution agreement—a “PF&D deal”—from one of the studios. In a typical PF&D

deal, the studio engages a producer to oversee the development of the script, the recruitment of the director and the lead actors, and, if the studio decides to go forward, to produce the film. The studio agrees to put up funds for development of the script, then to finance production of the film (subject to its approval of the budget, the shooting schedule, and all creative elements), and finally, in its discretion—the studio typically has the right to abandon the project at any time, and reserves total control over all decisions concerning distribution and marketing—to distribute the film. All rights in the film and in the underlying property belong to the studio (unless the studio abandons the project, in which case the producer usually gets a one-year right to re-acquire it—in turnaround—by securing a deal at another studio and repaying the first studio the amount it has paid to the point of abandonment, all of this being subject to the first studio's right to step back in under certain circumstances). The producer is usually non-exclusive from inception until a few weeks prior to the commencement of shooting, but from that point on until well into the post-production period (when the film is scored, edited, etc.), the producer is either exclusive to the studio or on first call to the studio. The bottom line under such an arrangement is, because all important decisions are subject to the complete discretion and control of the studio, that the producer is far from independent.

A producer's fee is usually anywhere between \$100,000 and \$2,000,000. Less established producers will receive closer to the minimum amounts and proven producers will receive very high amounts, even more than \$2,000,000. The average producer receives a fee in the range of \$300,000 and \$400,000. The producer is usually entitled to 50 percent of some contractually determined net, but—as we shall see below—this is often more concept than reality. Where a producer has a solid track record of success, the producer may receive a share of so-called first dollar gross, gross film rental, adjusted gross, or some other more favorable sharing in the revenues from the film prior to breakeven and as an advance against the producer's share of ultimate net profits.

Assuming that all of this is worked out to the parties' satisfaction, the matter proceeds as follows:

1. Pre-Production. The producer's worst fear is that the film may get lost in the shuffle and left on a shelf. To avoid this, the producer will try to negotiate a "progress to production" schedule in the PF&D deal. This forces the studio to choose to proceed further with development or abandon the project, placing it in a position to be repurchased by the producer. A key step in the pre-production phase is the budget for the film, which is established once the script is essentially finished. In general, most studio executives feel it is necessary to reject the first budget presented. Thus, a producer will often overload the budget in anticipation of extensive negotiations resulting in cuts. Once the budget is set, principal characters have been cast, and a director is on board, the typical PF&D deal accord the producers "pay or play" status. This means that the studio has to pay off the producer whether or not the film is actually made. During pre-production, the full cast and crew is assembled, locations are scouted, sets are built, costumes and props are made, and actors rehearse scenes.
2. Principal Photography. This is the period (usually 10 to 12 weeks, but sometimes much shorter, e.g., *Smoky and the Bandit*: 18 days; *Wag the Dog*: 29 days) or much longer (*Apocalypse Now*: more than four months) during which the film is actually shot. Preparation of the shooting schedule, once an art form, is now largely computerized, the idea being to cluster scenes in which the same actors appear (and the same sets and/or locations are used) insofar as possible, in order to minimize unproductive time.

3. Post-Production. Once the film is “in the can”—an increasingly quaint celluloid concept as new digital video recording technology evolves—the producer, director, and technical staff perform a wide variety of tasks: re-shoots of scenes where extraneous elements (e.g., the shadow from a boom mike, a distant superhighway in a film about the Old West in the 1870s) appear, overdubs of dialog (perhaps a conversation on a busy street was drowned out by nearby construction noise), creation and/or enhancement of effects in the Foley room (technicians stamping on piles of old film make sounds like autumn leaves crunching), and similar technical enhancements and corrections. In addition, the film will be edited, scored, and titled. At the same time, the studio’s distribution department begins its work. It books the film with theatrical exhibitors, and promotes it through “teasers” (“Coming this Summer . . .”) and trailers, billboards, broadcast commercials, press releases, and personal appearances by stars. Then, the studio makes a large number of prints of the final version of the film and delivers them to the exhibitors.

10.2.2.3 *Dealing with Directors, Actors, and Writers*

The main issues in contracts with directors, actors, and writers are usually money, credit, and creative involvement (not necessarily in that order.) As we have indicated, star salaries are the main reason for the tremendous escalation in production costs in recent years (the other being the cost of increasingly complex and spectacular special effects). According to Jim Wiatt, president of the William Morris Agency, “Some stars are making \$30 million per movie, including perks” (*The Hollywood Reporter*, May 16–22, 2000, p. 4). Studios like “tentpole” pictures, that is, event movies that have the capacity to generate a bigger buzz and therefore command more screens. However, “[d]espite the industry’s slavish addiction to stars, reliance on big-name actors is far from the box office certainty it may once have been.” (Stephen Galloway, “High Flyers,” *The Hollywood Reporter*, May 16–22, 2000.) Although the presence of a big name star is no guarantee of box office success (see, e.g., Jim Carrey, *Man on the Moon*; Eddie Murphy, *Bowfinger*; Tom Cruise/Nicole Kidman, *Eyes Wide Shut*, Stanley Kubrick’s last film; Kevin Costner, *The Postman*; Harrison Ford, *Random Hearts* to cite just a few examples), available evidence would indicate that the odds favor tentpole movies over less spectacular films. (Most studio executives would consider *American Beauty*, which took in \$200 million in U.S. theatres at a production cost only \$15 million, something of an aberration.)

Of course, only a very small number of directors, actors, and writers receive the huge fees we read and hear about. In fact, the sad truth is that the vast majority of the members of the three major talent unions (the Directors’ Guild, the Writers’ Guild, and the Screen Actors’ Guild) cannot earn a living in the film business. Perhaps as many as two-thirds of the members of SAG earn less than \$1,000 a year from acting in films.

The labor law aspects of film production are beyond the scope of this book. However, it is important to note the existence of basic agreements between the Directors’ Guild, the Screen Actors’ Guild, and the Writers’ Guild of America and the Association of Motion Picture and Television Producers, the bargaining arm of the studios and other producers, which contain minimum compensation terms (scale), supplementary payments for uses in other markets (residuals), and other requirements and restrictions of general application contained in their collective bargaining agreements. However, anything beyond the basics is open for individual negotiation.

For the director, the key issue is creative control. While the DGA agreement

requires that the director be allowed certain cut rights, the ultimate goal of the director is to achieve the right of final cut. (Indeed, the DGA ultimately hopes to include the right of final cut in its basic agreement.) This means that the studio cannot alter the picture (except where required by foreign censorship requirements or other specific circumstances) once the director delivers it. Only a very few experienced and very successful directors presently enjoy final cut, and the right is usually dependent on the delivery of a film of specific length and rating (e.g., 95–120 minutes, no worse than an “R” rating.) The decisions between Warren Beatty and Paramount Pictures Corp. and between Michael Cimino and Gladden Entertainment Corp. (see Section 5.3.1) illustrate, on the one hand, the power wielded by a director with final cut and, on the other hand, the consequences of the failure of a director with final cut to exercise this drastic power in good faith.

For an actor, issues such as approval of script and/or director (see *Parker v. Twentieth Century-Fox Film Corporation*, Section 5.3.1) are of paramount importance, but perhaps no other non-economic issue looms as large as “billing” or credit (see Section 2.5). Other issues subject to negotiation are the perks accorded to lead actors, such as personal trailers, chauffeur-driven limousines, personal assistants, and other similar items. One famous instance of this being the cause of termination of negotiations was between Alec Baldwin and Paramount Pictures over the starring role in *Patriot Games*. Baldwin sought \$4,000,000 and numerous perks to reprise his role from *The Hunt for Red October*. Paramount refused his non-fee demands, terminated negotiations, and gave the role to Harrison Ford (giving him all the perks Baldwin had asked and \$11,000,000).

Normally, the screenwriter gets paid the least of all the “above the line” personnel, and is accorded no creative control. Since it is very common for numerous writers to work on the same project, the screenwriter may not even receive screen credit, despite having contributed to the ultimate screenplay, since WGA rules severely limit the number of individuals who may receive credit on a specific film. For example, the original screenplay for *Good Will Hunting* was a cloak and dagger movie. It was not until it was re-worked by “script doctors” that it became the Academy Award-winning original screenplay. Unless the screenwriter is the producer or director or of sufficient stature to receive top billing, like John Grisham, the writer’s only hope is to receive a paycheck and—with some luck—screen credit. Recently, the WGA obtained the right to have the writer’s credit appear on screen immediately before the director’s credit, and the WGA is now seeking to eliminate the “a film by” possessory credit often requested by the director of a film.

10.2.2.4 Gross Receipts/Net Profits

A major issue in negotiating contracts with “above the line” personnel is the issue of “points.” Points are contingent revenue participations in addition to the fixed fee, typically applied to net profits but sometimes (for a very few superstars and major directors) to gross receipts. In either case, the definition of what is *gross* and what is *net* is not determined in accordance with the American Institute of Certified Public Accountants’ Generally Accepted Accounting Principles (GAAP). (Indeed, in the wake of a number of cases in which this was an issue, the studios dropped the terms *gross receipts* and *net profits* and substituted other, less-freighted terms.) The outcome depends on the language of the individual studio’s form (there are a number of common themes which run throughout all

the studios' forms). Although there are extremely rare situations in which a participant will share from "first dollar" in the vast majority of gross deals and in all net deals, generally the participant receives a fixed fee and contingent compensation that comes into play only after recoupment of the artist's upfront fee and some form of breakeven. For example, for *Coming to America*, Eddie Murphy would have received no contingent compensation until his 15 percent share of the film's gross revenue exceeded his upfront fee of \$8 million. For *Captain Hook*, Steven Spielberg, Dustin Hoffman, Robin Williams, and Julia Roberts each received \$10 million plus 10 percent of gross; the 10 percent was effective only with respect to monies in excess of \$100 million.

How breakeven is calculated is key: Net profits are significantly more complex and contested especially after the *Buchwald* case. The basic "getting to net" formula utilized by the studios works as follows (the percentages indicated are typical, but, of course, they may vary from case to case):

- Gross (sometimes called "gross proceeds") will consist of the studio's receipts from theatres, television licensees, and portions of income from various ancillary sources: home video (typically 20 percent of wholesale receipts), soundtrack record sales (5 percent of 90 percent of suggested retail list price), music publishing income (25 percent of the publisher's share of income received by the studio's publishing affiliate), and merchandising (50 percent of the studio's receipts from its merchandising affiliate).
- The first category of deductions will be *distribution fees*, typically 30 percent of film rentals in the U.S. and Canada, 35 percent in the UK, and 40 percent in the rest of the world; 25 percent of U.S. network television fees and 35 percent of other U.S. television fees; and 40 percent of foreign television fees (whether or not the studio will impose distribution fees on ancillary income will vary from studio to studio).
- The second category of deductions will be *distribution costs*, principally the costs of duplicating and handling prints and other distribution materials; advertising, promotion, and publicity expenses; the costs of utilizing the studio's in-house personnel; and an overhead charge of 10 percent of expenditures in the latter category.
- The third category of deductions will be *production costs*, the actual costs of development, pre-production, principal photography, and post-production, plus interest on each item of expenditure at 125 percent of the rolling prime rate charged by the studio's bank, and an overhead charge of 15 percent of the production costs (some studios will charge the overhead fee on the interest, and vice versa).
- The fourth category of deductions will be *deferrals*. In many cases, the budget for a particular film will not support a particular actor's customary fee. However, the actor will not want to reduce his/her fee, because that might impact his/her ability to command the same (or a higher) fee in the future. So, the actor may agree to defer a portion of his/her fee. For example, the entire budget for a certain early 1980s film was \$6 million. The proposed star's regular fee was \$2 million (a considerable sum at the time). In order to accommodate the needs of the producer, without lowering his fee, the actor agreed to work for \$2 million, to be paid \$100,000 per week for the eight weeks of principal photography, and the balance of \$1.2 million to be paid to the extent funds were available after the foregoing four categories of deductions had been completed.

If anything remains at that point, the participations kick in. Typically, the studio and the producer split the net 50/50, with the producer's share absorbing all other net participations, subject to a minimum, a "floor," which may be "soft" or "hard." For example, if the director, the two leads, and the writer of a film are each entitled to 10 percent of the net, a total of 40 percent of the producer's

50 percent would be siphoned off, leaving the producer with only 10 percent. Since the producer's fee is so small, the studios have recognized the unfairness of this. Therefore, the studio will agree to one of two forms of relief: the studio will agree to absorb the third party participations to the extent that they would reduce the producer's share below a specific percentage (usually 20 percent [the "hard floor"]), or, more typically, the studio will agree to absorb one-half of the third party participations to the extent that they would reduce the producer's share below the threshold. (In our example, the producer would end up with 15 percent.)

The main rationale for this model is what has been referred to as the "fundamental economic underpinning" of the motion picture business, the theory that a studio must recoup not only its investment in a successful motion picture, but also sufficient additional revenues therefrom to cover the studio's unrecouped investment on its unsuccessful pictures, its ongoing development program, its distribution organization, and to finance its future motion pictures. In short, the winners subsidize the losers. A studio's need to keep revenues in excess of a film's direct cost is the result of three industry norms: (1) most films fail to recover their production costs and distribution expenses during their initial cycle of exploitation in cinemas, home video, and television (although, over time, most studio films finish in the black); (2) the success of a motion picture cannot be predicted; and (3) the studio has no contractual right to ask net profit participants to share the risks attendant to a film. By postponing the point where a studio begins sharing with profit participants until it has recovered a significant return on its investment, the net profit deal assures studios the means to remain viable economic enterprises.

The perception in Hollywood is that net profits are illusory. The studios' accounting techniques will assure that films will always fail to show net profits, even blockbusters. On occasion, some movies do reach net profits. *Pet Cemetery* reached net profits in its theatrical run. *Flashdance*, *Airplane*, and *Grease* have all earned money for their net profit participants. The screenwriter for *An Officer and a Gentleman* has earned nearly \$5 million from his net profit interest.

Buchwald v. Paramount (see Section 6.5) rattled the foundations of the entire net profit system. Buchwald sued Paramount Pictures over the movie *Coming to America* and specifically challenged the net profit system. The judge at the district court level found that the studios use of the net profit system was unconscionable. However, it was never decided at the appellate level and was quickly settled. The *Batfilm* case (Section 6.5) came out the opposite way. Thus, a more authoritative decision was never issued and the net profit system is still in effect.

10.2.3 Producing Films: The Independent Model

Independent films constitute a major part of the film industry. One-fourth to one-third of all major studio releases are in fact produced by independents, some under so-called negative pick-up deals (see below), and some without advance studio commitments. A studio may do this to fill in gaps in its release schedule, or it may do so to take advantage of the lower costs that may result if an independent film is shot in a "right to work" state such as Texas, or in a jurisdiction in which local union work rules may be more relaxed than they are in Los Angeles or New York.

Independent films are gaining increasing importance within the industry.

Young actors look to star in independent films as a way of becoming known. Known actors look to participate in independent films because they like the story, believe in the film, or want to help the producer or director of the film. The Academy Awards are not the only awards given for films; there are many film festivals that feature independent filmmakers (Sundance, New York Film Festival, Toronto Film Festival, and Seattle Film Festival are examples). Many directors, producers, and writers get discovered at these festivals, such as Steven Soderbergh's *sex, lies, and videotapes* and Ed Burns' *The Brothers McMullen*.

Independent producers face the same problems in rights acquisition as do studios and studio-backed independents, but they have considerable problems of their own.

10.2.3.1 *Financing Independent Films*

Although some nominally independent movies are in fact financed by studios, many others are truly independent. Due to the inherently risky nature of the film industry, independent producers have even greater problems financing their films. Some independent filmmakers raise money through donations from family and friends, or possibly allowing local advertisers to pay them for being in the film. Usually these methods are not enough and rarely yield a successful film, so other sources must be used. The classic strategy for financing independent films is a two-pronged attack. First, the filmmaker seeks equity investors or production loans. Second, the filmmaker "pre-sells" territorial and ancillary distribution rights.

Seeking equity investors for an independent film is a daunting task due to the long odds inherent in the film industry. If the producer is able to attract investors, the parties will probably form a limited partnership, a limited liability company, or a corporation. Film investors usually expect to recoup their initial capital from the producer's gross before the producer receives any share of the profits (after third party distribution fees and costs have been paid). After recoupment, the investor and producer normally split the profits on a pro rata basis, though such division is usually the subject of much negotiation.

Financing also may come from bank loans. However, not many banks will lend money for independent productions. Those that do will only lend to films if fully secured by firm guarantees. These typically come in the form of negative pick-up deals and/or pre-sales of foreign rights to responsible distributors (usually secured by irrevocable letters of credit).

In a *negative pick-up* deal, the distributor typically agrees to pay a fixed sum on delivery of the film in accordance with specific conditions precedent and/or to pay some or all of the cost of prints and advertising, thereby relieving the producer of securing funding to the extent of a studio's commitment. A negative pick-up becomes a financial tool when the deal is entered into prior to production of the film by a distributor who is enthusiastic about the proposed film (director, cast, writer) and is confident about the producer's ability to complete the film. Some studios or major distributors will enter a "fully funded negative pick-up deal." This means the studio or distributor will pay the cost of the film in exchange for exclusive worldwide distribution rights. Furthermore, the studio gets to take advantage of the financing tools of independent films and does not have to pay until the film is completed.

Another method of financing independent films is *pre-sales*. Pre-sales of foreign theatrical rights is the major independent financing technique. For example,

German investors now provide 10 to 15 percent of the financing for higher-budget U.S. independent films (investment from Italy and South Korea, major markets, has declined). (Robert Marich, "German Money Makes Its Mark on Hollywood," *Los Angeles Times*, February 24, 2000, p. C5.) The producer sells rights to distributors in individual foreign markets. The distributors pay specific advances on delivery of the film, such advances being customarily secured by irrevocable letters of credit. Pre-sales of home video rights used to be a major source of financing for independent films. However, the major studios now control such a high proportion of the distribution of home videos that there is no substantial independent market (as there was when Vestron and Media Home Entertainment were in business). Pre-sales of television rights is still a viable technique and becoming more and more popular with the rise of many cable networks. These networks, such as HBO, Showtime, Cinemax, or the Sci-Fi Channel, want quality independent productions to give their viewers something the other networks do not offer. Pre-sales can raise large capital for the independent filmmaker and can be used to secure bank financing as well.

10.2.3.2 Insurance

Studios generally have blanket insurance policies that cover all of their films and activities. Independent filmmakers must obtain this insurance on their own for each individual project. Financiers and investors typically will not provide funds without the necessary coverage. Insurance is a very costly aspect of film production and requires a balancing of needs and risks. To control its risk, the insurance company must determine exactly what the risks are. To control the cost, the producer needs to determine how much of a risk it is willing to assume in the form of deductibles, policy limits, and the length of the term of coverage.

Special circumstances involved in the production of a particular movie can necessitate extra forms of insurance, filming overseas for instance, especially in danger zones, such as the Middle East. Sometimes actors have to do their own stunts and that requires special insurance. It may be more cost effective to hire extra stunt people or film the shot differently to avoid this extra cost. Insurance also forces actors to stop doing certain activities during the shooting of a film. This is not because of risks to their physical well-being, but because if the star of the film is hurt or killed, the movie is effectively over or it will cost too much to re-shoot the scenes. For example, during the filming of the last three *Star Trek* movies, Michael Dorn (Worf) was unable to take part in his favorite hobby, flying planes. Typically, there will be so-called cast insurance covering the death or incapacity of principal actors. Additionally, if an actor or director is a key or essential element in a license or pre-sale, then "essential elements" insurance is required.

Several types of insurance are available to film producers: some are required; some are only needed based on the actual movie that is being filmed. Most of the insurance policies deal with things like theft, damage, injury to cast members, workers compensation, or weather insurance. Others are applicable only in certain situations. Foreign insurance is only needed if any of the filming takes place in a foreign country. Aircraft and water insurance are applicable only if the film involves activities that require the use of such equipment in the shooting.

Errors and omissions insurance is a specialized form of insurance which typically protects film producers (as well as the distributors and exhibitors with whom they deal) from claims such as violation of rights of publicity and privacy,

quasi-contractual claims from submitters of ideas (see e.g., *Desny v. Wilder* and *Blaustein v. Burton*, in Section 4.1.2), copyright infringements, and violations of Section 43a of the Lanham Act. It does not provide reimbursement for lost profits or for production costs (other than prints and advertising) and it does not cover crimes or intentional torts. E&O insurance carriers require the submission of an extremely detailed application (which sometimes requires the producer's attorney's signature as well as that of the producer, but *always* requires the participation of the attorney) in which the producer must catalogue such matters as whether the film will portray persons living or dead, and, depending on whether such persons are alive or deceased, whether clearances have been obtained from such persons or their legal representatives; whether the title of the production has been cleared; whether the production is based on existing material; and so on.

10.2.3.3 Completion Guaranty Bonds

Financiers will customarily require a completion bond from a company such as International Film Guarantors, Inc., Film Finances, Inc., or Motion Picture Bond Company. The completion bond assures the financier that either the film will be completed within budget by a fixed date, or the financier will be reimbursed its out-of-pocket expenses incurred in connection with the film to the extent of the guaranty. The completion bond company has two options if an independent film runs into trouble. First, it can halt production, abandon the project, and reimburse the financiers for the amount of the bond. Second, the guarantor can step in, complete the film, and pay the over budget expenses.

The completion bond company is staffed by people who are experienced in the financing and production of movies. During the bonding process, the guarantor will give close scrutiny to the financial, creative, and administrative details of the production, and it is this process—together with the track record of the producer and the creative personnel involved with the production—that gives the financial community the confidence necessary to participate. The completion bond company will retain the right to replace the producer, director, actors, or any other element it believes represents a financial or completion risk. The company also may control the expenditure of all monies allocated to the production by the financier to assure that the film remains within the approved budget. The company will normally insist that the budget of the film provide for a contingency factor of at least 10 percent. For its role, the completion guarantor will charge a premium of approximately 3 percent of the budget of the film.

It is rare for a completion guarantor to actually take over production of a film, but it has occurred. More often, the guarantor steps in when a production is late and/or over budget to require that proposed special effects be dropped or replaced, that scenes be restaged or eliminated, and similar matters. Perhaps the most famous case of such an intervention occurred during the filming of *The Adventures of Baron Munchausen*, under the direction of Terry Gilliam. The completion guarantor stepped in to require the elimination of various special effects, yet still had to pay \$14 million to complete the picture.

10.2.4 The International Market

The American film industry dominates the international market. For example, *Titanic* alone accounted for 13 percent of the tickets sold in Europe in 1998.

More than half of the total revenue derived by the U.S. studios comes from foreign sources, often bringing domestically unprofitable films into the black. Some movies make far more money in the international market than they do in the domestic film market. In 1998, *Armageddon* made approximately \$201.6 million domestically and \$306.4 million internationally. The split for *Saving Private Ryan* was \$191 million domestically and \$242.3 million internationally; *Mission: Impossible* did \$180.9 million domestically, \$284 million internationally; and *A Perfect World*, starring Clint Eastwood and Kevin Costner at the height of their careers, did only about \$37 million domestically, but did almost four times that much in foreign sales. All-time box office champion *Titanic* took in \$600.8 million domestically, and \$1.2 billion overseas.

Foreign countries, especially in Europe, have been a source of financing for American movies for many years. Though it has long been a regular method for independent films via the pre-sale process, the major studios have also tapped foreign sources as a way to spread risk. Canal Plus, Ciby 2000, Banque Paribas, and FILMS are major European investors in American films. For example, the most aggressive European investor, Canal Plus, has invested in *A Bronx Tale*, *The Power of One*, *JFK*, *Under Siege*, *Terminator 2: Judgment Day*, *Basic Instinct*, *Boiling Point*, *Stargate*, *Free Willy 2*, *Boys on the Side*, *Sommersby*, and *Murder in the First*. Some other films with European investors are *The Madness of King George*, *Cliffhanger*, *Fortress*, and *Man Without a Face*.

However, an increasing number of films by European producers are produced with the assistance of a system of quotas and subsidies. Although the United States does not do so, most European countries give subsidies and quotas to encourage investment in locally produced films. Because of the ethnic and linguistic diversity of the population of Europe, it is very difficult for local producers to create a product with general appeal. Therefore, in order to help European-produced films to compete with American blockbusters, the European Union (EU) and its member states have established local-content quotas for prime-time television and a range of subsidies available to EU-based producers who utilize the requisite proportion of local talent and technical support. While American producers can participate in these productions, they generally must cede control to the local co-venturer.

Each country's subsidy system is different. Some are extensive, while others are very limited. Great Britain and France offer examples of the two extremes. In Britain, subsidies have declined greatly since the 1980s. However, £3 to £5 million are still available every year from British Screen Finance. Approximately 25 percent of British-produced films receive funding from British Screen each year. Furthermore, British Screen provides support for international co-productions. British Screen is owned by Rank, United Artists' Screen Entertainment, Channel Four, and Granada, but also receives approximately £2 million in annual funding from the government. British Screen requires projects to be of high quality (not only from a United Kingdom perspective) and to demonstrate profit potential, and insists on a preferential position for its loans plus 60 percent of the net profits.

Subsidies in France are administered by the French Center for Cinematography through direct payments and tax concessions. They are based on a point system. Points are awarded to a project based on French or European subject matter, director, writer, location of shooting and location of post-production, and other criteria. The subsidy is earned by the track record of an approved produc-

tion, and is applicable to the producer's next production. In that way, subsidies are linked to success. France funds its subsidy program through a tax on box office receipts of motion picture theaters. It is ironic that most of the box office receipts are from showings of American films.

Another source of financing is from supranational bodies that provide support to international co-productions. These bodies encourage co-productions in order to spread the risk of filmmaking and encourage films to cross international boundaries commercially. The two major bodies are Eurimages and the European Convention on Cinematographic Co-production.

Eurimages gives support to co-production where at least three co-producers are from EU member states. The support is in the form of "advances on receipts" of an amount of up to 20 percent of the budget, with a maximum of 5 million francs per film. Eurimages still provides funding to films even if producers from nonmember states are involved in the film, so long as the participation is under 30 percent. Furthermore, pre-sales to distributors in the United States is not considered participation. Eurimages has invested in over 200 films, the most significant film being *The House of the Spirits*. This film was in English and starred three American actresses: Meryl Streep, Glenn Close, and Wynona Ryder. The budget for this film came mostly from pre-sales, the largest amount being paid by Miramax.

The European Convention on Cinematographic Co-production is intended to simplify co-productions, making access to European national funds and subsidies available to a broader range of co-production structures. The Convention has only been ratified by ten European countries, so it has not proven its effectiveness to the same extent as Eurimages. The Convention applies to co-productions where all producers are nationals of signatory states or where at least three producers are from three states providing at least 70 percent of the financing. As is the case with the Eurimages model, producers from nonsignatory states can participate in the project. There are three major benefits deriving from the Convention. First, multilateral co-productions are able to gain access to national funds. Second, the minimum contribution is 20 percent and there are no specific terms relating to studios, labor, location, filming, and so forth. Third, there is no local language requirement.

International co-financing is a way to spread the risk that is inherent in the film industry. It also allows American producers access to the European system of subsidies. A final important advantage is that it allows some more creative, artistic films to be made that the major studios pass on.

10.2.5 Ancillary Markets

Ancillary markets are all the markets except for theatrical and television release. These include home video, pay-per-view, soundtracks, books based on the movie, and all sorts of merchandise and collectibles. The most important aspect of the ancillary market is that it continues to provide revenues for the studios well after the theatrical run has ended. Indeed, the very term *ancillary* is anachronistic in a world in which the merchandising revenues from the *Star Wars* series are several times greater than the theatrical and television revenues.

The ancillary market can more than make up for a movie that runs a deficit. A good example of this is *Austin Powers: International Man of Mystery*, which was a box office flop, but spent over a year on the home video best-seller list,

more than tripling its box office revenues in the home video markets. Similar results (albeit to a lesser degree) have flowed to films such as *Madeline*, *Paulie*, and *Spice World*. Even hits benefit from home video revenue. For example, *Armageddon* earned \$116.3 million from video, over half of the box office take. *The Mask of Zorro* earned \$91.9 million in home video revenue, almost matching its box office take. Furthermore, with hit movies, the production costs are usually covered by the theatrical run, so home video sales are nearly all profit.

The retail market for movie-based merchandise is a billion dollar industry, although only a few movies do well in this area. Coffee cups, toys, board and video games, posters, stuffed animals, and joint marketing strategies have all become commonplace. Disney has mastered this process through numerous youth-oriented campaigns undertaken with fast food chains. In addition, some movies have been involved in marketing strategies for products aimed at more mature audiences. Ericsson, Absolute, and BMW have used the character James Bond to advertise cell phones, vodka, and cars. The character Austin Powers has been used in similar marketing strategies as well. Furthermore, Disney and Warner Brothers have their own international chains of retail stores selling movie-related merchandise.

10.3 DISTRIBUTION

10.3.1 Dealing with Theatres

Although film studios talk of sales, films are universally licensed to theatres. Each studio maintains exchanges that supply films and promotional materials to theatres and monitor their performance. There are four predominant methods of licensing a motion picture: competitive bidding, competitive negotiations, non-competitive negotiations, and film splitting.

1. In *competitive bidding*, distributors send out bid letters for a specific movie, announcing minimum terms. The terms may include nonrefundable rental guarantees offered for the rights to a film, an advance payment against subsequent box office receipts, sharing a percentage of the box office receipts, cooperative advertising percentages, provisions for geographic exclusivity relative to other showings of the same movie (known as clearances), length of the movie run, and opening date. The best bid is chosen. Years ago studios used a blind bidding process, under which exhibitors were asked to bid on films on the basis of a summary memorandum, without ever seeing the film. This was outlawed by statute in approximately 24 states.
2. In *competitive negotiations*, a distributor negotiates with two or more exhibitors competing for the right to show a movie, rather than opening a bid to all theatres in a given market area.
3. *Noncompetitive negotiations* occur where the distributor negotiates only with one exhibitor. This type of licensing method normally take place in “closed” towns, or where one exhibitor owns all the local theatres. It also occurs where a distributor deals with the same exhibitor on an informal exclusive arrangement (“tracking”).
4. *Split arrangement* (in contrast to the three preceding methods of allocating exhibition rights) are agreements between exhibitors in a given area to split the rights to negotiate for certain upcoming films. This is the subject of antitrust cases and is discussed in Section 10.3.2, below.

Once the film is committed to a theatre, a rental agreement is executed between the parties. Although there are a number of customary forms of rental agreements, the format encountered most often with respect to first-run films is the so-called 90/10 deal with a “floor” (not to be confused with the “floor” that applies in the calculation of net). Under this arrangement, the theatre is allowed to retain a negotiated dollar amount of box office receipts to cover its expenses (the so-called house nut that may or may not bear a relationship to actual expenses), with the balance (if any) divided 10 percent to the theatre and 90 percent to the studio.

However, regardless of the house nut and the theatre’s 10 percent, the studio will customarily insist on receiving no less than a minimum (“floor”) of 70 percent of weekly box office revenues for the first two weeks of the run, 60 percent for the next two weeks, 50 percent for the fifth and sixth weeks, and so on. As the picture continues in release, the deal will frequently be simply a percentage of receipts, and, finally, a dollar figure. This is why the studio ultimately receives only 40 to 50 percent of box office revenues, and why studios want to be back in the theatre business. The studio does not share in the theatre’s income from its concession stands.

However, many leading theatre chains have suffered in recent years. Whether it is because of overbuilding (the number of U.S. screens rose from approximately 27,000 to approximately 39,000 during the 1990s) or otherwise, the exhibition business is not a gold mine. (See Robert Marich, “Reviews Generally Poor for Cinema Investors,” *Los Angeles Times*, January 19, 2000, p. C10). Because the studios need to maintain credibility and goodwill, the rental formula may be adjusted in favor of the theatre if a picture does not perform up to expectations. The studios do not negotiate with theatres on an individual level; they deal with the owners of a chain of theatres and the exhibitors negotiate for rights to the films in the markets where they have theatres. As a result, a movie may be shown at several different theatres, each owned by different exhibitors. From the studio point of view, it wants to get the film on as many different screens as possible. From an exhibitor point of view, some movies will make them money no matter how many other chains in a given area have a license to show the film. As example of this is the release of *Star Wars Episode I: The Phantom Menace*.

10.3.2 Antitrust Issues in Distribution: Studio Issues

The history of the motion picture industry can almost be chronicled through the host of antitrust litigation that has surrounded the industry’s progress. In a sense, the Sherman and Clayton antitrust acts and the motion picture industry grew up together. At a time when the antitrust statutes were being thoroughly tested and concepts accordingly expanded, the motion picture business entered its boom period. Antitrust and motion pictures collided at an early date, with film industry practices challenged in a case going all the way to the U.S. Supreme Court in 1923 (*Binderup v. Pathe Exchange*, 263 U.S. 291 [1923]). Although the Supreme Court had held a year earlier that baseball was neither interstate in nature nor commerce in the constitutional sense (*Federal Baseball Club of Baltimore, Inc. National League of Professional Baseball Clubs*, 259 U.S. 200 [1922]), the motion picture studios, distributors, and exhibitors were not so fortunate. Federal antitrust laws were held to be fully applicable to the industry. The *Binderup* case was only the first of a long series of movie cases through the 1920s, 1930s, and

into the 1940s, culminating in the famous *United States v. Paramount* case which follows.

Prior to the 1940s the major studios were more like factories that produced, distributed, and exhibited films. They controlled all aspects of the film industry. This changed when the U.S. Justice Department challenged the system under the Sherman Antitrust Act. The case went all the way to the Supreme Court and ended in the landmark decision of *United States v. Paramount*. To read this case is to delve into the development of the business practices of the industry. *United States v. Paramount* is particularly enlightening, both for historical purposes and for its insights into current practices. The antitrust applications are instructive, but equally important are the discussions of business practices, some of which were curtailed by this decision, but not totally abandoned.

United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948)

MR. JUSTICE DOUGLAS

[The Government brought suit under 4 of the Sherman Act against five major studios who produced, distributed, and exhibited films, and several other defendants who either produced and distributed films or merely distributed them, charging, *inter alia*] that all the defendants, as distributors, had conspired to restrain and monopolize and had restrained and monopolized interstate trade in the distribution and exhibition of films [and that] the five major defendants had engaged in a conspiracy to restrain and monopolize, and had restrained and monopolized, interstate trade in the exhibition of motion pictures in most of the larger cities of the country. It charged that the vertical combination of producing, distributing, and exhibiting motion pictures by each of the five major defendants violated 1 and 2 of the Act. It charged that each distributor-defendant had entered into various contracts with exhibitors that unreasonably restrained trade. Issue was joined; and a trial was had. [Those of the defendants' practices which appear to have potential relevance in today's industry are excerpted from the court's opinion.]

Clearances and Runs

Clearances are designed to protect a particular run of a film against a subsequent run. The District Court found that all of the distributor-defendants used clearance provisions and that they were stated in several different ways or in combinations: in terms of a given period between designated runs; in terms of admission prices charged by competing theatres; in terms of a given period of clearance over specifically named theatres; in terms of so many days' clearance over specified areas or towns; or in terms of clearances as fixed by other distributors. [Since the district court ruled that clearances were not unlawful *per se*, and the government did not appeal, the Supreme Court did not decide this issue—Eds.] In [the lower court's] view their justification was found in the assurance they give the exhibitor that the distributor will not license a competitor to show the film either at the same time or so soon thereafter that the exhibitor's expected income from the run will be greatly diminished. A clearance when used to protect that interest of the exhibitor was reasonable, in the view of the court, when not unduly extended as to area or duration. Thus the court concluded that although clearances might indirectly affect admission prices, they do not fix them and that they may be reasonable restraints of trade under the Sherman Act.

The District Court held that in determining whether a clearance is unreasonable, the following factors are relevant:

- (1) The admission prices of the theatres involved, as set by the exhibitors;
- (2) The character and location of the theatres involved, including size, type of entertainment, appointments, transit facilities, etc.;
- (3) The policy of operation of the theatres involved, such as the showing of double features, gift nights, give-aways, premiums, cut-rate tickets, lotteries, etc.;
- (4) The rental terms and license fees paid by the theatres involved and the revenues derived by the distributor-defendant from such theatres;
- (5) The extent to which the theatres involved compete with each other for patronage;
- (6) The fact that a theatre involved is affiliated with a defendant-distributor or with an independent circuit of theatres should be disregarded; and
- (7) There should be no clearance between theatres not in substantial competition.

It reviewed the evidence in light of these standards and concluded that many of the clearances granted by the defendants were unreasonable [having] no relation to the competitive factors which alone could justify them. The clearances which were in vogue had, indeed, acquired a fixed and uniform character and were made applicable to situations without regard to the special circumstances which are necessary to sustain them as reasonable restraints of trade. The evidence is ample to support the finding of the District Court that the defendants either participated in evolving this uniform system of clearances or acquiesced in it and so furthered its existence [and that there was] a conspiracy to restrain trade by imposing unreasonable clearances.

The District Court enjoined defendants and their affiliates from agreeing with each other or with any exhibitors or distributors to maintain a system of clearances, or from granting any clearance between theatres not in substantial competition, or from granting or enforcing any clearance against theatres in substantial competition with the theatre receiving the license for exhibition in excess of what is reasonably necessary to protect the licensee in the run granted. In view of the findings this relief was plainly warranted.

Some of the defendants ask that this provision be construed (or, if necessary, modified) to allow licensors in granting clearances to take into consideration what is reasonably necessary for a fair return to the licensor. We reject that suggestion. If that were allowed, then the exhibitor-defendants would have an easy method of keeping alive at least some of the consequences of the effective conspiracy which they launched. For they could then justify clearances granted by other distributors in favor of their theatres in terms of the competitive requirements of those theatres, and at the same time justify the restrictions they impose upon independents in terms of the necessity of protecting their film rental as licensor. That is too potent a weapon to leave in the hands of those whose proclivity to unlawful conduct has been so marked. It plainly should not be allowed so long as the exhibitor-defendants own theatres. . . .

Objection is made to a further provision of this part of the decree stating that "Whenever any clearance provision is attacked as not legal under the provisions of this decree, the burden shall be upon the distributor to sustain the legality thereof." We think that provision was justified. Clearances have been used along with price fixing to suppress competition with the theatres of the exhibitor-defendants and with other favored exhibitors. The District Court could therefore

have eliminated clearances completely for a substantial period of time, even though, as it thought, they were not illegal *per se*. . . . The court certainly then could take the lesser step of making them *prima facie* invalid. But we do not rest on that alone. As we have said, the only justification for clearances in the setting of this case is in terms of the special needs of the licensee for the competitive advantages they afford. To place on the distributor the burden of showing their reasonableness is to place it on the one party in the best position to evaluate their competitive effects. . . .

Block-Booking

Block-booking is the practice of licensing, or offering for license, one feature or group of features on condition that the exhibitor will also license another feature or group of features released by the distributors during a given period. The films are licensed in blocks before they are actually produced. . . . Block-booking prevents competitors from bidding for single features on their individual merits. The District Court held it illegal for that reason and for the reason that it “adds to the monopoly of a single copyrighted picture that of another copyrighted picture which must be taken and exhibited in order to secure the first.” . . . The court enjoined defendants from performing or entering into any license in which the right to exhibit one feature is conditioned upon the licensee’s taking one or more other features.

We approve that restriction. The copyright law, like the patent statutes, makes reward to the owner a secondary consideration. . . . It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius. But the reward does not serve its public purpose if it is not related to the quality of the copyright. Where a high quality of film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other. The practice tends to equalize rather than differentiate the reward for the individual copyrights. Even where all the films included in the package are of equal quality, the requirement that all be taken if one is desired increases the market for some. Each stands not on its own footing but in whole or in part on the appeal which another film may have. As the District Court said, the result is to add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses.

Columbia Pictures makes an earnest argument that enforcement of the restriction as to block-booking will be very disadvantageous to it and will greatly impair its ability to operate profitably. But the policy of the anti-trust laws is not qualified or conditioned by the convenience of those whose conduct is regulated. Nor can a vested interest in a practice which contravenes the policy of the anti-trust laws receive judicial sanction.

We do not suggest that films may not be sold in blocks or groups, when there is no requirement, express or implied, for the purchase of more than one film. All we hold to be illegal is a refusal to license one or more copyrights unless another copyright is accepted.

Discrimination

The District Court found that defendants had discriminated against small independent exhibitors and in favor of large affiliated and unaffiliated circuits through various kinds of contract provisions. These included suspension of the terms of

a contract if a circuit theatre remained closed for more than eight weeks with reinstatement without liability on reopening; allowing large privileges in the selection and elimination of films; allowing deductions in film rentals if double bills are played; granting moveovers and extended runs; granting road show privileges; allowing overage and underage; granting unlimited playing time; excluding foreign pictures and those of independent producers; and granting rights to question the classification of features for rental purposes. The District Court found that the competitive advantages of these provisions were so great that their inclusion in contracts with the larger circuits and their exclusion from contracts with the small independents constituted an unreasonable discrimination against the latter. Each discriminatory contract constituted a conspiracy between licensor and licensee. Hence the District Court deemed it unnecessary to decide whether the defendants had conspired among themselves to make these discriminations. . . . We concur in the conclusion that these discriminatory practices are included among the restraints of trade which the Sherman Act condemns. . . .

There is some suggestion on this as well as on other phases of the cases that large exhibitors with whom defendants dealt fathered the illegal practices and forced them onto the defendants. But as the District Court observed, that circumstance if true does not help the defendants. For acquiescence in an illegal scheme is as much a violation of the Sherman Act as the creation and promotion of one.

[The Court proceeded to discuss the lower court's proposed remedies]:

Competitive Bidding

The District Court concluded that the only way competition could be introduced into the existing system of fixed prices, clearances and runs was to require that films be licensed on a competitive bidding basis. Films are to be offered to all exhibitors in each competitive area. The license for the desired run is to be granted to the highest responsible bidder, unless the distributor rejects all offers. The licenses are to be offered and taken theatre by theatre and picture by picture. Licenses to show films in theatres in which the licensor owns directly or indirectly an interest of ninety-five percent or more are excluded from the requirement for competitive bidding. . . . [However, w]e have concluded that competitive bidding involves the judiciary so deeply in the daily operation of this nation-wide business and promises such dubious benefits that it should not be undertaken.

Each film is to be licensed on a particular run to "the highest responsible bidder, having a theatre of a size, location and equipment adequate to yield a reasonable return to the licensor." The bid "shall state what run such exhibitor desires and what he is willing to pay for such feature, which statement may specify a flat rental, or a percentage of gross receipts, or both, or any other form of rental, and shall also specify what clearance such exhibitor is willing to accept, the time and days when such exhibitor desires to exhibit it, and any other offers which such exhibitor may care to make." We do not doubt that if a competitive bidding system is adopted all these provisions are necessary. For the licensing of films at auction is quite obviously a more complicated matter than the like sales for cash of tobacco, wheat, or other produce. Columbia puts these pertinent queries: "No two exhibitors are likely to make the same bid as to dates, clearance, method of fixing rental, etc. May bids containing such diverse factors be readily compared? May a flat rental bid be compared with a percentage bid? May the

value of any percentage bid be determined unless the admission price is fixed by the license?"

The question as to who is the highest bidder involves the use of standards incapable of precise definition because the bids being compared contain different ingredients. Determining who is the most responsible bidder likewise cannot be reduced to a formula. The distributor's judgment of the character and integrity of a particular exhibitor might result in acceptance of a lower bid than others offered. Yet to prove that favoritism was shown would be well-nigh impossible, unless perhaps all the exhibitors in the country were given classifications of responsibility. If, indeed, the choice between bidders is not to be entrusted to the uncontrolled discretion of the distributors, some effort to standardize the factors involved in determining "a reasonable return to the licensor" would seem necessary.

We mention these matters merely to indicate the character of the job of supervising such a competitive bidding system. It would involve the judiciary in the administration of intricate and detailed rules governing priority, period of clearance, length of run, competitive areas, reasonable return, and the like. . . . The judiciary is unsuited to affairs of business management; and control through the power of contempt is crude and clumsy and lacking in the flexibility necessary to make continuous and detailed supervision effective. Yet delegation of the management of the system to the discretion of those who had the genius to conceive the present conspiracy and to execute it with the subtlety which this record reveals, could be done only with the greatest reluctance. At least such choices should not be faced unless the need for the system is great and its benefits plain.

The system uproots business arrangements and established relationships with no apparent overall benefit to the small independent exhibitor. If each feature must go to the highest responsible bidder, those with the greatest purchasing power would seem to be in a favored position. Those with the longest purse—the exhibitor-defendants and the large circuits—would seem to stand in a preferred position. If in fact they were enabled through the competitive bidding system to take the cream of the business, eliminate the smaller independents, and thus increase their own strategic hold on the industry, they would have the cloak of the court's decree around them for protection. Hence the natural advantage which the larger and financially stronger exhibitors would seem to have in the bidding gives us pause. . . .

Our doubts concerning the competitive bidding system are increased by the fact that defendants who own theatres are allowed to pre-empt their own features. They thus start with an inventory which all other exhibitors lack. The latter have no prospect of assured runs except what they get by competitive bidding. The proposed system does not offset in any way the advantages which the exhibitor-defendants have by way of theatre ownership. It would seem in fact to increase them. For the independents are deprived of the stability which flows from established business relationships. Under the proposed system they can get features only if they are the highest responsible bidders. They can no longer depend on their private sources of supply which their ingenuity has created. Those sources, built perhaps on private relationships and representing important items of good will, are banned, even though they are free of any taint of illegality.

The system was designed, as some of the defendants put it, to remedy the difficulty of any theatre to break into or change the existing system of runs and clearances. But we do not see how, in practical operation, the proposed system

of competitive bidding is likely to open up to competition the markets which defendants' unlawful restraints have dominated. Rather real danger seems to us to lie in the opportunities the system affords the exhibitor-defendants and the other large operators to strengthen their hold in the industry. We are reluctant to alter decrees in these cases where there is agreement with the District Court on the nature of the violations. . . . But the provisions for competitive bidding in these cases promise little in the way of relief against the real evils of the conspiracy. They implicate the judiciary heavily in the details of business management if supervision is to be effective. They vest powerful control in the exhibitor-defendants over their competitors if close supervision by the court is not undertaken. In light of these considerations we conclude that the competitive bidding provisions of the decree should be eliminated so that a more effective decree may be fashioned. . . .

Monopoly, Expansion of Theatre Holdings, Divestiture

There is a suggestion that the hold the defendants have on the industry is so great that a problem under the First Amendment is raised. . . . We have no doubt that moving pictures, like newspapers and radio, are included in the press whose freedom is guaranteed by the First Amendment. That issue would be focused here if we had any question concerning monopoly in the production of moving pictures. But monopoly in production was eliminated as an issue in these cases, as we have noted. The chief argument at the bar is . . . [o]ver the cream of the exhibition business—that of the first-run theatres. By defining the issue so narrowly we do not intend to belittle its importance. It shows, however, that the question here is not *what* the public will see or *if* the public will be permitted to see certain features. It is clear that under the existing system the public will be denied access to none. If the public cannot see the features on the first-run, it may do so on the second, third, fourth, or later run. The central problem presented by these cases in which exhibitors get the highly profitable first-run business. That problem has important aspects under the Sherman Act. But it bears only remotely, if at all, on any question of freedom of the press, save only as timeliness of release may be a factor of importance in specific situations.

The controversy over monopoly relates to monopoly in exhibition and more particularly monopoly in the first-run phase of the exhibition business.

The five majors in 1945 had interests in somewhat over 17 percent of the theatres in the United States—3,137 out of 18,076. Those theatres paid 45 percent of the total domestic film rental received by all eight defendants.

In the 92 cities of the country with populations over 100,000 at least 70 percent of all the first-run theatres are affiliated with one or more of the five majors. In four of those cities the five majors have no theatres. In 38 of those cities there are no independent first-run theatres. In none of the remaining 50 cities did less than three of the distributor-defendants license their product on first run to theatres of the five majors. In 19 of the 50 cities less than three of the distributor-defendants licensed their product on first run to independent theatres. In a majority of the 50 cities the greater share of all of the features of defendants were licensed for first-run exhibition in the theatres of the five majors.

In about 60 percent of the 92 cities having populations of over 100,000, independent theatres compete with those of the five majors in first-run exhibition. In about 91 percent of the 92 cities there is competition between independent theatres and the theatres of the five majors or between theatres of the five majors

themselves for first-run exhibition. In all of the 92 cities there is always competition in some run even where there is no competition in first runs.

In cities between 25,000 and 100,000 populations the five majors have interests in 577 of a total of 978 first-run theatres or about 60 percent. In about 300 additional towns, mostly under 25,000, an operator affiliated with one of the five majors has all of the theatres in the town.

The District Court held that the five majors could not be treated collectively so as to establish claims of general monopolization in exhibition. It found that none of them was organized or had been maintained "for the purpose of achieving a national monopoly" in exhibition. It found that the five majors by their present theatre holdings "alone" (which aggregate a little more than one-sixth of all the theatres in the United States), "do not and cannot collectively or individually, have a monopoly of exhibition." The District Court also found that where a single defendant owns all of the first-run theatres in a town, there is no sufficient proof that the acquisition was for the purpose of creating a monopoly. It found rather that such consequence resulted from the inertness of competitors, their lack of financial ability to build theatres comparable to those of the five majors, or the preference of the public for the best-equipped theatres. And the percentage of features on the market which any of the five majors could play in its own theatres was found to be relatively small and in nowise to approximate a monopoly of film exhibition. . . .

The District Court did, however, enjoin the five majors from expanding their present theatre holdings in any manner. It refused to grant the request of the Department of Justice for total divestiture by the five majors of their theatre holdings. It found that total divestiture would be injurious to the five majors and damaging to the public. Its thought on the latter score was that the new set of theatre owners who would take the place of the five majors would be unlikely for some years to give the public as good service as those they supplanted "in view of the latter's demonstrated experience and skill in operating what must be regarded as in general the largest and best equipped theatres." Divestiture was, it thought, too harsh a remedy where there was available the alternative of competitive bidding. It accordingly concluded that divestiture was unnecessary "at least until the efficiency of that system has been tried and found wanting."

It is clear, so far as the five majors are concerned, that the aim of the conspiracy was exclusionary, *i.e.*, it was designed to strengthen their hold on the exhibition field. In other words, the conspiracy had monopoly in exhibition for one of its goals, as the District Court held. Price, clearance, and run are interdependent. The clearance and run provisions of the licenses fixed the relative playing positions of all theatres in a certain area; the minimum price provisions were based on playing position—the first-run theatres being required to charge the highest prices, the second-run theatres the next highest, and so on. As the District Court found, "In effect, the distributor, by the fixing of minimum admission prices, attempts to give the prior-run exhibitors as near a monopoly of the patronage as possible."

It is, therefore, not enough in determining the need for divestiture to conclude with the District Court that none of the defendants was organized or has been maintained for the purpose of achieving a "national monopoly," nor that the five majors through their present theatre holdings "alone" do not and cannot collectively or individually have a monopoly of exhibition. For when the starting point is a conspiracy to effect a monopoly through restraints of trade, it is relevant to

determine what the results of the conspiracy were even if they fell short of monopoly. . . .

The District Court in its findings speaks of the absence of a “purpose” on the part of any of the five majors to achieve a “national monopoly” in the exhibition of motion pictures. First, there is no finding as to the presence or absence of monopoly on the part of the five majors in the *first-run* field for the entire country, in the *first-run* field in the 92 largest cities of the country, or in the *first-run* field in separate localities. Yet the *first-run* field, which constitutes the cream of the exhibition business, is the core of the present cases. Section 1 of the Sherman Act outlaws unreasonable restraints irrespective of the amount of trade or commerce involved . . . and 2 condemns monopoly of “any part” of trade or commerce. “Any part” is construed to mean an appreciable part of interstate or foreign trade or commerce . . . Second, we pointed out in *United States v. Griffith* . . . that “specific intent” is not necessary to establish a “purpose or intent” to create a monopoly but that the requisite “purpose or intent” is present if monopoly results as a necessary consequence of what was done. The findings of the District Court on this phase of the cases are not clear, though we take them to mean by the absence of “purpose” the absence of a specific intent. So construed they are inconclusive. In any event they are ambiguous and must be recast on remand of the cases. Third, monopoly power, whether lawfully or unlawfully acquired, may violate 2 of the Sherman Act though it remains unexercised, for the existence of power “to exclude competition when it is desired to do so” is itself a violation of 2, provided it is coupled with the purpose or intent to exercise that power. The District Court, being primarily concerned with the number and extent of the theatre holdings of defendants, did not address itself to this phase of the monopoly problem. Here also, parity of treatment as between independents and the five majors as theatre owners, who were tied into the same general conspiracy, necessitates consideration of this question.

Exploration of these phases of the cases would not be necessary if, as the Department of Justice argues, vertical integration of producing, distributing and exhibiting motion pictures is illegal *per se*. But the majority of the Court does not take that view. In the opinion of the majority the legality of vertical integration under the Sherman Act turns on (1) the purpose or intent with which it was conceived, or (2) the power it creates and the attendant purpose or intent. First, it runs afoul of the Sherman Act if it was a calculated scheme to gain control over an appreciable segment of the market and to restrain or suppress competition, rather than an expansion to meet legitimate business needs. . . . Second, a vertically integrated enterprise, like other aggregations of business units . . . will constitute monopoly which, though unexercised, violates the Sherman Act provided a power to exclude competition is coupled with a purpose or intent to do so. As we pointed out in *United States v. Griffith*, . . . size is itself an earmark of monopoly power. For size carries with it an opportunity for abuse. And the fact that the power created by size was utilized in the past to crush or prevent competition is potent evidence that the requisite purpose or intent attends the presence of monopoly power. . . . Likewise bearing on the question whether monopoly power is created by the vertical integration, is the nature of the market to be served . . . and the leverage on the market which the particular vertical integration creates or makes possible.

These matters were not considered by the District Court. For that reason, as well as the others we have mentioned, the findings on monopoly and divestiture

which we have discussed in this part of the opinion will be set aside. There is an independent reason for doing that. As we have seen, the District Court considered competitive bidding as an alternative to divestiture in the sense that it concluded that further consideration of divestiture should not be had until competitive bidding had been tried and found wanting. Since we eliminate from the decree the provisions for competitive bidding, it is necessary to set aside the findings on divestiture so that a new start on this phase of the cases may be made on their remand.

It follows that the provision of the decree barring the five majors from further theatre expansion should likewise be eliminated. For it too is related to the monopoly question; and the District Court should be allowed to make an entirely fresh start on the whole of the problem. . . .

NOTE

A shift in antitrust policies commenced during the Reagan administration. A new school of thought favored efficiency through collaboration and did not automatically assume that combinations harmed consumers. The administration would still attack the most severe anticompetitive practices, but softened its policies toward most types of merger activities. As a result, the studios have been permitted to re-enter the exhibition business. Between 1985 and 1988, for example, movie companies spent more than \$1 billion in the purchase of independent theatres.

10.3.3 Exhibitor Violations: Splitting Arrangements

A second major antitrust issue involves split arrangements between exhibitors. Splitting occurs when instead of bidding against one another for each new movie, groups of exhibitors in various cities allegedly prearranged to “split” the right to bid for forthcoming movies among themselves. As a result, distributors find that only one exhibitor is negotiating for upcoming releases in each market area. Split arrangements appear to be an obvious form of collusion and small-time exhibitors feel frozen out of the highest quality films and allege a conspiracy between powerful exhibitors and certain distributors to give preference to the better financed exhibitors. The exhibitors argue that splitting provides efficiency gains, which lower the costs of movie distribution and increases competition, between both exhibitors and motion pictures.

For thirty years, the Justice Department did not challenge split arrangements and had, at various times, issued statements before Congress approving the use of such arrangements. However, in 1977, the Justice Department completely reversed its position and announced that splitting arrangements were virtually indistinguishable from bid-rigging and were *per se* illegal. The first major case dealing with splitting arrangements was *United States v. Capitol Service*. The Court agreed with the Justice Department and found that split arrangements were illegal. Based on the decision in the *Capitol Service* case, the government filed fourteen lawsuits against exhibitors covering large cities and small cities.

United States v. Capitol Service, Inc., 756 F.2d 502 (7th Cir.), cert. denied, 474 U.S. 945 (1985)

GEORGE CLIFTON EDWARDS, JR., SENIOR CIRCUIT JUDGE

This is a civil antitrust action brought by the United States Government under Section 1 of the Sherman Act, 15 U.S.C. 1, against four motion picture exhibitors

who operate theatres in the Milwaukee, Wisconsin area. [The lower court] found . . . defendants' practice of "splitting," or allocating among themselves, the rights to negotiate for films released by motion picture distribution companies constituted both illegal price fixing and an illegal "scheme to divide products among themselves with the purpose of eliminating competition with respect to those products. [And] enjoined [defendants] from further engaging in any motion picture split agreements, in any form and with any person, in any motion picture exhibition market throughout the United States." *United States v. Capitol Service, Inc.*, 568 F. Supp. 184, 155 (E.D. Wis. 1983). Defendants appeal only the breadth of the injunction. . . .

The defendants-appellants, Capitol Service, Inc. ("Capitol Service"), Kohlberg Theatres Service Corporation ("Kohlberg"), Marcus Theatres Corporation ("Marcus"), and United Artists Theatre Circuit, Inc. ("UATC"), cumulatively operate approximately 90% of the first-run motion picture theatres in the Milwaukee metropolitan area. On November 30, 1977, representatives of each appellant met and formed a "split agreement." The District Court described the agreement as follows:

Under the agreement, the defendants have grouped their theatres that primarily exhibit first-run motion pictures into three units of eleven screens each. On occasion, some of the defendants' theatres that are not included in the three units have been split pictures under the split agreement. Under the agreement, Marcus and UATC each constitute one unit since each has eleven primarily first-run screens in Milwaukee. Capitol Service, which has eight primarily first-run screens, and Kohlberg, which has three primarily first-run screens, together form the third unit. The defendants meet periodically or converse by telephone to split pictures.

The split is a "picture-by-picture" split, meaning particular films are allocated to specific theatres. The exhibitors take turns selecting films for their respective theatres, making sure that no two theatres in the same geographic zone play the same film. Because General Cinema, which is not involved in the split, has two first-run theatres in Milwaukee, the defendants will sometimes "split around" the General Cinema theatres, meaning that they leave a run of the picture open in the event one of General Cinema's theatres obtains a license for the picture. *Id.* at 140–141.

The District Court specifically found that appellants formed the split "for the purpose of eliminating competition among themselves." The split was formed in response to what appellants viewed as the "excessive terms" which resulted from the distribution system previously used in the Milwaukee area—the competitive bid system. Under the competitive bid system, motion picture distributors inform exhibitors of the release of new films by exhibitor solicitation letters. The letters provide a minimum of information about the film and include suggested minimum terms for the licensing of the film. See *Allied Artists Picture Corp. v. Rhodes*, 679 F.2d 656, 660 (6th Cir. 1982). The exhibitors then respond with competitive bids for the right to play the film at a particular theatre. The bidding process often results in terms greater than that suggested in the solicitation letters.

Licensing also occurs by competitive and noncompetitive negotiations. The latter occurring in "closed" or one exhibitor markets. Films are also distributed under the "track" system—a system of distribution to theaters on the basis of an established relationship between the distributor and exhibitor. *Id.* With the exception of the noncompetitive negotiations, all licenses are firm and not subject

to downward adjustment following the playing of a picture. This forces exhibitors to bear a portion of the “risk” of producing, distributing, and exhibiting films.

The licensing of films frequently takes place before prints are available for screening. Thus, bids or negotiations are conducted without the exhibitors knowing anything more than a brief plot description and the names of the key personnel involved in making the film. The “blind bid” system is the object of opposition from exhibitors which has resulted in the enactment of anti-blind bidding statutes in at least 23 states. [Citations omitted.]

The District Court found that the Milwaukee split consisted of three basic agreements: (1) an agreement not to bid on pictures; (2) an agreement not to negotiate for a picture until it is split; and (3) an agreement not to negotiate for a picture split to another exhibitor. The court further found that the split agreement had precisely the desired effect—price competition among the defendants was reduced. The split reduced significantly the number of bids submitted by defendants. It resulted in a substantial reduction in the amount of guarantees paid by defendants to distributors. The number of downward adjustments in film rentals increased. Finally, the length of playtime for particular films shortened. The District Court concluded that “[e]ach of the above-noted results of the split affected the price paid for films.”

The District Court found, that as the agreement constituted price fixing and division of markets, the agreement violated the *per se* rule of antitrust law. *Northern Pacific R. Co. v. United States*, 856 U.S. 1, 5, 78 S.Ct. 514, 518, 2 L.Ed.2d 545 (1958). See *Arizona v. Maricopa County Medical Society*, 457 U.S. 892, 102 S.Ct. 2466, 78 L.Ed.2d 48 (1982). Thus the agreement did not need to be analyzed under the rule of reason and defendants’ arguments concerning alleged benefits from the split did not need to be considered. See *Board of Trade of the City of Chicago v. United States*, 246 U.S. 231, 238, 38 S.Ct. 242, 243, 62 L.Ed. 683 (1918).

The District Court concluded its findings of fact and conclusions by law by noting that “[a]lthough the focus of the evidence presented in the instant case was the Milwaukee split agreement, evidence was presented indicating that the defendants are engaged in split agreements in other markets throughout the United States.” *United States v. Capitol Service, Inc.*, 568 F. Supp. at 155.

Appellants’ objection on appeal relates to the just quoted sentence. Appellants contend that the District Court lacked sufficient evidence to justify the issuance of a nationwide injunction barring them from engaging in “any motion picture split agreements, in any form.” . . . Appellants do not contest, for purposes of this appeal, the correctness of the District Court’s findings and conclusions relating to the Milwaukee split. Nor do they challenge the appropriateness of the District Court’s injunction as applied to the Milwaukee geographical area. The narrow issue on appeal is whether the District Court was justified in issuing a nationwide injunction against all forms of split agreements when the trial was limited to the legality of the split entered into by the appellants covering the Milwaukee metropolitan area.

Appellants contend that all splits are not alike and that some splits are legal under Section 1 of the Sherman Act. Appellants contend that each split must be analyzed on its own facts under the rule of reason and that the District Court erred in finding that all splits are *per se* illegal. Splits which provide the split designee only a right of first negotiation, and do not prevent distributors from negotiating with the exhibitor of their choice do not, according to appellants,

constitute either illegal price fixing or market allocation and thus are not *per se* illegal.

The position taken by appellants on appeal differs from that taken at trial in that, before the District Court, they insisted that the Milwaukee split was a “good” split and involved only the right of first negotiation, which appellants insist does not constitute a *per se* violation of Section 1 of the Sherman Act. The District Court discussed this contention as follows:

All the split does, maintain the defendants, is allocate among exhibitors the “right of first negotiation” for the films split. As the court discusses below, however, the so-called “right of first negotiation,” even as described by the defendants, is an impediment to price competition in the market. (When asked during trial how long the “right of first negotiation” for a film would last, Michael Kominsky of Marcus could state only that it lasted a “reasonable amount of time.” The response tends to show how little substance there is behind the defendants’ phraseology [Note in original] . . .

The “right of first negotiation” appears to the court to be an empty phrase used by the defendant exhibitors to describe their agreement to negotiate only for the films allocated to their respective theatres. Once a batch of films has been split, the screens for a particular period of playtime are booked up. A distributor has little chance of entering into meaningful negotiations for the licensing of a film at a theatre other than the split designee because other theatres have been designated for other films.

Appellants rely on *Greenbrier Cinemas, Inc. v. Attorney General*, 551 F. Supp. 1046 (W.D. Va.1981) to support their position that “good” splits do exist. *Greenbrier* involved a declaratory judgment action brought to determine whether a Charlottesville motion picture split was *per se* illegal under Section 1. The trial was “limited to the issue of what the split agreement was, how it operated, and whether the agreement did constitute a *per se* violation of the Act *regardless of any effect it might or might not have had on competition or price.*” *Id.* at 1048 [emphasis added]. The court found that the Charlottesville split was limited to a right of first negotiation and that distributors were free to ignore the split and negotiate with any exhibitor they pleased. *Id.* at 1054. The court then concluded that the split was not *per se* illegal under Section 1.

The *Greenbrier* decision has been the subject of criticism both on the grounds of its failure to consider the effect of the split on price or competition and its failure to consider the Supreme Court’s decision in *National Society of Professional Engineers v. United States*, 485 U.S. 679, 98 S.Ct. 1355, 55 L.Ed.2d 637 (1978). See *General Cinema Corp. v. Buena Vista Distribution Co.*, 532 F. Supp. 1244, 1265–1266 (C.D. Cal.1982). As the District Court found below, even a limited right of first negotiation has a profound effect on price competition. *United States v. Capitol Service, Inc.*, 568 F. Supp. at 143, 145.

The Supreme Court in *Professional Engineers* addressed “an agreement among competitors to refuse to discuss prices with potential customers until after negotiations have resulted in the initial selection of an engineer.” 435 U.S. at 692, 98 S.Ct. at 1865. The Court held that any supposed benefits from the restriction of competition were irrelevant under the appropriate Rule of Reason analysis. *Id.* at 693–696, 98 S.Ct. at 1966–1967. The Court stated that there were two categories of antitrust analysis.

In the first category are agreements whose nature and necessary effect are so plainly anticompetitive that no elaborate study of the industry is needed to establish their illegality—they are “illegal *per se*.” In the second category are agreements whose competitive effect can only be evaluated by analyzing the facts peculiar to the business, the history of the restraint, and the reasons why it was imposed. In either event, the purpose of the analysis is to form a judgment about the competitive significance of the restraint, it is not to decide whether a policy favoring competition is in the public interest, or in the interest of the members of an industry. Subject to exceptions defined by statute, that policy decision has been made by the Congress. *Id.* at 582, 98 S.Ct. at 1385 (footnote omitted).

The Court went on to note that “[w]hile this is not price fixing as such, no elaborate industry analysis is required to demonstrate the anticompetitive character of such an agreement. It operates as an absolute ban on competitive bidding.” . . . *Id.*

The so-called “good” split, which appellants seek to have removed from the prohibition of the injunction, similarly operates as a ban on competitive bidding. The District Court recognized that in theory a right of first negotiation did not preclude competitive negotiations. In fact, however, the time pressures under which the distributors operate preclude them from negotiating with other exhibitors:

Once a batch of films has been split, the screens for a particular period of playtime are booked up. A distributor has little chance of entering into meaningful negotiations for the licensing of a film at a theatre other than the split designee because other theatres have been designated for other films. *United States v. Capitol Service, Inc.*, 568 F. Supp. at 145.

The anticompetitive character of the so-called “good” split agreement is readily apparent. See *General Cinema Corp. v. Buena Vista Distribution Co.*, 532 F. Supp. at 1260. A right of first negotiation as described by defendants, no matter how flexible in theory, is an agreement among competitors amounting to a horizontal restraint on competition illegal *per se* under Section 1. *White Motor Co. v. United States*, 372 U.S. 253, 263, 83 S.Ct. 696, 702, 9 L.Ed.2d 738 (1963); *Timken Roller Bearing Co. v. United States*, 341 U.S. 598, 71 S.Ct. 971, 95 L.Ed.1199 (1951). The District Court did not err in enjoining defendants from “engaging in any motion picture split agreements, in any form.” . . .

Appellants also contend that the District Court erred in issuing a nationwide injunction. The basis of appellants’ position is that the complaint, discovery, and trial were all limited to the Milwaukee market and that it “is fundamentally unfair to subject defendants to a nationwide injunction in such circumstances.” . . .

Having found appellants guilty of conduct which was illegal *per se* under Section 1, it was not an abuse of discretion for the District Court to enjoin appellants from engaging in such conduct anywhere in the United States. Geographical limitations regarding the issues at trial do not alter the court’s broad remedial powers. Appellants have conducted their businesses in a manner forbidden by law. The District Court has large discretion in redressing antitrust violations and in fitting the decree to the special needs of the individual cases. *Ford Motor Co. v. United States*, 405 U.S. 562, 578, 92 S.Ct. 1142, 1149, 31 L.Ed.2d 492 (1972). Appellants based their defense at the District Court on the theory that the Milwaukee split was a “good” split. On appeal, appellants contend that although the

Milwaukee split may not have been a “good” split, other splits may be conducted in conformance with the law. They wish to be permitted to form such splits. The split described by appellants as a “good” split has been shown to be illegal *per se* under Section 1. There is ample reason to enjoin appellants from engaging in any such split anywhere in the United States. “When the purpose to restrain trade appears from a clear violation of law, it is not necessary that all of the untraveled roads to that end be left open and that only the worn one be closed.” *International Salt Co. v. United States*, 332 U.S. 392, 400, 68 S.Ct. 12, 17, 92 L.Ed. 20 (1947). See also *United States v. Gypsum Co.*, 340 U.S. 76, 88–89, 71 S.Ct. 160, 169–170, 95 L.Ed. 89 (1950); *Otter Tail Power Co. v. United States*, 410 U.S. 366, 381, 98 S.Ct. 1022, 1031, 35 L.Ed.2d 859 (1973). (“The proclivity for predatory practices has always been a consideration for the District Court in fashioning its antitrust decree.”)

Appellants also contend that the injunction is imprecise in that “split” is not defined. See *Federal Rules of Civil Procedure* 65(d). We believe, however, that the District Judge carefully defined the term “split” as used in his injunctive order as follows:

1. “an agreement not to engage in competitive bidding,”
2. “an agreement . . . not to negotiate for pictures until they have been split,” and
3. “an agreement . . . not to negotiate for films split to other [exhibitors].”

See *United States v. Capitol Service, Inc.*, 568 F. Supp. at 148, 145. We also believe that this definition should be regarded as incorporated into his judgment. It is so ordered.

For the reasons set forth above, the judgment of the District Court is in all respects affirmed.

Chapter 11

TELEVISION

11.1 THE TELEVISION BUSINESS

Nothing is as ubiquitous in our lives as television. And, except for the Internet, nothing has changed as rapidly in recent years. Indeed, as we see the emergence of “personal video recorders” (such as TiVo) and “Internet appliances” which permit viewers to bypass the home video process, on the one hand, and to perform some computer functions on their TV sets, on the other, it appears that television (albeit highly transformed) will become even more ubiquitous as years pass. For example, Forrester Research has estimated that 14 million homes will have PVRs by 2004, and that by 2009, they will be in 80% of American homes.

11.1.1 The Changing Face of the Television Industry

No other entertainment industry has seen the same degree of technological innovation over such a short time span as the television industry. In the last few years, more than 10 million consumers have subscribed to the DirectTV and EchoStar (Dish Network) satellite delivery systems (now joined by BellSouth/GE Americom). High definition television (HDTV) has arrived, with pictures vastly sharper than anything currently available (although at this writing sets are very expensive and, in the U.S. and many other countries, broadcast services are still arguing about when and how HDTV broadcasting is to be launched). Television programming can be delivered via the Internet already. See “New Media 2: Bandwith Special Issue,” *The Hollywood Reporter*, April 19, 1999, p. S-1. Set-top “Internet appliances” permit users to perform some computer operations through their TV sets. The landscape shifts incessantly.

Broadcast television is still dominated by the three original networks, the American Broadcasting Corporation (ABC), the National Broadcasting Company (NBC), and the Columbia Broadcasting System (CBS), along with Fox (which came along in the mid-1980s, and which has recently ranked third—and sometimes higher—in audience share). Although their ratings have lagged far behind

the big four, the WB, and United Paramount Network (UPN) have survived. Pax TV is a minor factor.

Each network is a division of a larger conglomerate. NBC is owned by General Electric; ABC is owned by the Walt Disney Corporation; CBS and UPN are owned by Viacom; Fox is owned by News Corp; the WB is owned by AOL Time-Warner Inc.

The network share of audience has declined by more than a third since the early 1970s, most of the lost viewers having drifted to cable and computers. Cable viewership actually exceeded that of the networks in 1997. While cable ad revenues grew rapidly during the 1990s, broadcast network revenues grew by much smaller percentages. Nevertheless, given the audience shrinkage which has befallen the broadcast networks, their rates (measured in "CPM" or cost per thousand viewers) remain high. In 2000, the "upfront market" (in which 80% of prime time ads are sold) was estimated at \$7 billion, up 10% over 1999. *USA Today*, May 22, 2000, p. B1. Nevertheless, the television broadcast networks are under constant pressure to cut costs and increase profits. In recent years, all three networks have undergone cutbacks in various departments. Furthermore, the networks have ordered fewer pilots from producers than in previous years and have increased the number of "newsmagazines" and game shows, which are far less expensive to produce than traditional entertainment programming.

In 1995, in response to the erosion of the broadcast networks' domination, the Federal Communications Commission (FCC) eliminated 1970s-era rules which had prohibited network ownership interest in entertainment programming and barred networks from participating in "syndication," i.e., the practice of licensing off-network programming as well as programming specifically created for syndication (so-called first-run syndication) to individual stations. As the off-network syndication deals for such shows as *Cosby*, *Seinfeld*, and *Home Improvement* and the first-run syndication success of *Rosie* have demonstrated, huge profits are possible in syndication. (For example, the first two cycles of broadcast syndication and cable for *Seinfeld* yielded a reputed \$2 billion. Scott Hetrick, "A Super 'Seinfeld' Deal," *The Hollywood Reporter*, Sept. 15–21, 1998, p. 4.) This has created tension between the networks and the studios. In 1998, NBC announced that it would not make deals with any studio unless it was given an ownership interest in the show, a position NBC later dropped. ABC also attempted to extract ownership interests from producers in the late stage of series negotiations, provoking equivalent consternation among the studios.

Recognizing the inevitable, the networks embraced the cable business. Each broadcast network has an affiliation with one or more cable networks. NBC has CNBC and MSNBC. CBS owns Country Music Television and The Nashville Network. The other networks are linked to various cable networks through their parent companies. For example, FX is owned by Newscorp. and AOL Time-Warner owns all of the Turner Broadcasting channels such as TNT, TBS, and CNN. ABC has linked its sports programming to that of ESPN, since both are owned by Disney.

Each of the major film studios also produces television shows. As is the case with the film, the major studios are Twentieth Century Fox, Universal, Warner Brothers, Paramount, Columbia-Tristar (Sony), and Disney. Emerging "major" Dreamworks SKG is in the television industry as well. Furthermore, there are a significant number of independent producers that have development deals with the larger studios, including Carsey-Werner (Sony), Steven Bochco Productions

(Twentieth Century Fox), David E. Kelley Productions (Twentieth Century Fox), and Bright/Kaufman/Crane Productions (Warner Brothers).

11.1.2 Broadcast Television

Even with the erosion of audiences, broadcast network television is still the major player in the television industry. The three original networks are organized along similar lines, though minor organizational differences exist. Each network has offices in Los Angeles, where most of their entertainment programming is produced, and in New York City, where the advertisers, news department, sports department, and corporate offices are located. All the networks are divided into several divisions: entertainment, news, sports (each of these are operated as separate companies) advertising sales, affiliate relations, operations, technical services, administration, personnel, and labor relations. Then each network has its owned and operated affiliates, which are also operated as separate companies.

Although legislative and regulatory changes in recent years have raised the limits on the number of individual stations that a network can own, it is still necessary for the networks to maintain relationships with local stations owned by other companies or individuals in order to reach all 211 markets throughout the country. Under a typical network affiliation agreement with a local station, the network provides a schedule of programs with national or regional commercials and financial compensation for the airtime utilized. The affiliate is allotted a portion of the commercial spots to sell to local advertisers. In theory, the affiliate does not have to accept all the programming the network provides, though local rejections are rare. If a local affiliate does reject a particular program, the network can license the show to another station in the market.

The amount of money the network has to pay the affiliate, or the “network compensation,” depends on a variety of factors. These factors are the number of commercial minutes in the hour, the ratio of commercial time sold nationally versus locally, the relative strength of the station versus other stations in the market, the amount of time that the program occupies, the size and demographic profile of the audience, and the size of the market.

The size of the market is the most important element. The larger the market, the larger the potential audience, and the more advertising dollars the networks can derive from selling “spots” to advertisers. Markets are ranked by the total number of households with television sets that can receive broadcasts from the particular city’s principal broadcasters. The top ten markets are New York City, Los Angeles, Chicago, Philadelphia, San Francisco, Boston, Washington D.C., Dallas-Fort Worth, Detroit, and Atlanta. The networks try to own as many affiliates in the top ten markets as possible, which guarantees them clearances for their programs in the major markets. ABC, NBC and CBS all own their affiliates in New York City, Los Angeles, Chicago, and several other cities in the top ten markets. No network owns all of its affiliates in all of the top ten markets.

Most of the other affiliates not owned by the networks are owned by various station groups. Station groups own several affiliates in different markets and are usually larger conglomerates. Major station groups include the Tribune Corporation, Hearst Corporation and Viacom, each owning several different media outlets in addition to the local stations. Station group ownership is the dominant trend and will have repercussions on the way the FCC operates. The FCC had structured many of its regulations to protect local stations from being over-

powered and swallowed up by the networks. However, in light of legislation in recent years which has relaxed limitations on station ownership (leading to the rapid growth of station groups), the old focus on individual local stations seems anachronistic.

11.1.3 Cable and Satellite Television

Cable TV, or community antennae television (CATV), was created in order to boost reception in areas where broadcast television signals were blocked or otherwise weakened, resulting in unavailability or causing poor reception. So, CATV systems were built to boost the signal and subscribers were charged for the service. Since these systems did not have the technical limitations of broadcast television, they could provide multiple channels, including distant network signals as well as independent, non-network-affiliated channels from nearby cities. From a slow start, cable has grown into a multi-billion dollar industry. Cable ad revenues for the first quarter of 2000 were up 33% from the same period in 1999, and almost double first-quarter revenues in 1997. *Daily Variety*, April 18, 2000, p. 1.

By 2000, approximately 80 million television households, i.e., 80 percent of American television households, were cable subscribers. However, as satellite delivery systems gain more and more users, the cable business feels the competition. Until recently, municipal governments were solely responsible for controlling and regulating the cable business. Local government's ace in the hole has been the simple fact that cable needs to be hardwired from the source to each household, which, in turn requires use of rights of way, which is usually controlled by local governments. Typically, the local municipality has awarded an exclusive franchise for all or part of its territory to a single cable company based upon a proposal describing the technical capabilities of the system, the channels that would be offered, the channel capacity, the rate schedule, the construction schedule, and the background of the company. In many cases, this local monopoly has led to poor service and attendant consumer dissatisfaction. As a result, the Federal government and local authorities are seeking to end cable monopolies. (For example, one of the major issues in the AOL/Time Warner merger was the degree to which the Time Warner fiber optic cable networks would be made available to competing services, and a major problem in the AT&T acquisition of Media One was the FCC regulation, adopted pursuant to the Cable Act of 1992, limiting the reach of any single cable company to 30% of the market.)

Most cable companies are multiple system operators (MSOs). MSOs control dozens or even hundreds of systems in various areas around the country. Most MSOs are owned by larger companies or conglomerates. The biggest MSOs are Telecommunications Inc. (owned by AT&T) with about 15 million subscribers, Time Warner with 12 million subscribers, Continental Cablevision with 4.2 million, Comcast Corporation with 3.4 million, Cox Communications with 3.8 million, and Cablevision with 2.8 million. Some other MSOs are Adelphia Cable, Jones Intercable, Marcus Cable, and Viacom Cable.

The FCC has imposed certain restrictions on the business practices of cable companies. First, cable companies are required to carry all of the broadcast networks, which are shown in their local markets. Second, they are also required to

carry public television stations. Third, they must carry a certain number of public access channels. This is all for the purpose of encouraging local broadcasting, which has been the goal of the FCC since its earliest regulation of television. However, cable companies do not possess infinite carrying capacity. There are over 150 cable networks in the United States, but most cable providers only have space for a maximum of 50, and since FCC rules mandate carriage of a certain number of channels, a cable operator may have only limited capacity for carriage of cable networks.

Cable is basically a retail industry.

For its “basic” service, a cable operator buys “wholesale” by paying each cable network it carries a monthly fee of 5 to 40 cents per subscriber (depending upon the popularity of the individual cable network). The cable company groups the broadcast channels it retransmits together with a number of (typically) advertiser-supported cable networks into a “basic cable” package. While prices vary depending upon the makeup of the package and the locality, the average price for basic cable is between \$20 and \$25. This price usually represents a 100 percent markup over the price charged to the MSO. The cable company also derives increasing revenue through advertising sales. The cable company gets a limited number of commercial spots from the various cable programming services which provide advertiser-supported programming to the cable operator, and then sells them to local merchants . . .

“Pay” cable, on the other hand, usually provides higher-cost programming and is not advertiser-supported. HBO, Cinemax, and Showtime are typical examples. Cable providers get these channels for approximately \$5 to \$6 per month per subscriber and mark the fee up 100 percent to the consumer. Due to the significant markup, the typical cable system offers its subscribers a variety of packages at different cost levels. Cable’s popularity has risen to such a level that some cable networks are more popular than the traditional broadcast networks among certain audiences and others (such as USA, TNT, and TBS) have become just like household appliances. On the other hand, whereas traditional broadcast networks are necessarily dependent upon mass demographics (especially the 18–34 group so sought after by advertisers) the availability of multiple channels on cable (and even more so via satellite) permits niche marketing to more specialized audiences. It would be hard to imagine such services as Lifetime (“Television For Women”), the Discovery Channel, or the History Channel on conventional television.

Just as they are heavily involved in the creation of programming for traditional broadcasting, the major studios are heavily involved with pay cable networks. In addition to owning Twentieth Century Fox and Fox Broadcasting Network, News Corp. owns FX (cable network), Fox News (cable network), Fox Family Channel (cable network), and Fox Sports (cable network). In addition to owning Warner Bros. Inc. and Warner Bros. Television, AOL Time Warner owns TNT, TBS, HBO, CNN, Cartoon Network, Cinemax, and parts of several other networks.

Apart from the facts that satellite delivery does not require costly cable installation and that the price of acquiring and installing the “dish” has dropped dramatically since the concept was introduced, the fact that satellite systems offer a vastly greater number of channels than cable systems (in some areas, it is possible to receive seven different cycles of HBO) provides additional outlets for niche marketing.

11.2 CREATING AND ACQUIRING PROGRAMMING

Even with all of the changes in the television industry, the goal of any network is to develop its own identity through original programming. Cable programmers are no different from traditional networks in this respect. NBC stresses its “Must See TV” promotion. CBS uses “Come Home to CBS.” But cable programmers have the same need as the broadcast networks to establish and maintain their individual identities. Shows like *The Sopranos* and *The Larry Sanders Show* helped create a specific image for HBO, while *South Park* and *Politically Incorrect* did the same for Comedy Central. In an evolving world in which the sheer number of available channels makes viewer loyalty problematic, product line recognition is of increasing importance throughout the industry. More than 40 cable networks now create at least some of the product they distribute. Ray Richmond, “Original View,” *The Hollywood Reporter*, May 5, 2000, p. S-1.

11.2.1 Dealmaking in the Television Industry

Over the past thirty years or so, a customary pattern of deal making evolved in television industry, largely due to the FCC financial interest and syndication rule and various consent decrees entered into with the Justice Department. Though the rules have been dropped and the consent decrees are no longer operative, the pattern (albeit in transition and subject to variation with each deal) still provides a basic blueprint for series deals in the television industry.

Just as with the film industry, everything starts with an idea and the acquisition of rights in that idea. An idea may be pitched by a producer to a studio or a network or the network or studio may ask an established producer or writer to come up with a series (often with only some vague description). This is how the 1998–1999 breakout hit *Providence* was created. NBC went to John Masius (producer of *St. Elsewhere* and creator of *Touched by an Angel*) and asked him to write a “feel good series for thirty-year olds.”

However, no matter where the idea originates, the first step is almost always writing the overall “treatment” for the series and a treatment for the first episode, called the “pilot.” The treatment for a television series is a description of the characters, the central theme of the series, and a brief description of future episodes. The treatment for the pilot is a description of the action that will take place in the first episode of the series. The network or studio, or both, reviews the treatment and if they approve they order a script of the pilot episode and possibly for the second or third episode as well.

When the network or studio approves the script, the next step is the creation of the pilot. This gives the network an idea of what the series will look and feel like, and the appeal it will have to the audience. Many pilots never make it to the air. However, if the network picks up the pilot, the network will then decide whether to order episodes of the series to place on the air.

If the network approves the pilot, it will then usually order between 7 and 13 episodes of the series. Based upon the performance of the first episodes ordered, the network may then decide to order additional episodes, up to an aggregate of 22 (the usual amount for a television season). Traditionally, if a series started in the Fall, the network would fill out the balance of the twenty-two episode first season order, and then have three annual renewal options of 22 episodes each. If the series was picked up for a mid-season launch, the split-order pattern would

apply to the second year as well, and then there would be three 22-order options. After the fourth full year (assuming the network exercised all its options) the producer would have the right to take the show elsewhere, subject to the network's right of first negotiation/right of first refusal (which, in almost all cases, effectively prevents the producer from moving the show to another network.)

The network's rights are limited to the U.S., and the network receives the right to air each show (with some exceptions) twice: one original showing and one rerun. After the end of the network's exclusive term, the producer would have the right to license existing episodes to third parties.

This is still the normal path that a television deal follows.

Of course, there are exceptions: In April 2000 it was announced that *Law and Order* (already on the air for twelve years) had been renewed for three years. NBC agreed to pay Warner Bros. TV more than \$500 million to keep *ER* for a further three years (*Los Angeles Times*, April 28, 2000, p. C6), and \$200 million to keep *Friends* for two more years (with each cast member to receive \$750,000 per episode plus a portion of syndication revenues). *Daily Variety*, May 15, 2000, p. 1.

The writer is extremely important in this process. The current trend among networks is to refuse to make commitments on the basis of just ideas and pitches; they tend to require a completed treatment. The Writer's Guild Basic Agreement prescribes minimum payments for treatments, scripts and pilots, but higher compensation is negotiable by an experienced and successful writer. The writer will receive partial payments at various stages of the development process, with a lump sum payment on delivery. If the network rejects the pilot script, the writer will have a "turnaround" provision in the contract which will permit the writer to take the series to another network or studio for syndication. If the writer is also the creator of the series, the writer will receive ongoing royalties for doing so. John Masius still collects royalties from the series he created *Touched by an Angel*, even though he never worked on any episode past the pilot.

11.2.2 The Development Deal

The goal of any television writer or producer is to get a development deal from one of the major studios or networks or a combination of both. While the movie industry is trying to cut back on these types of deals, television deals are expanding. Every network is afraid to let the next *Seinfeld* get away from them, so they lock up successful writers and producers in long term deals. Steven Bochco obtained a guaranteed minimum \$50,000,000 deal to produce ten series for Twentieth Century Fox and ABC. Bochco is the creator of *Hill Street Blues*, *L.A. Law*, and *NYPD Blue*. David E. Kelley, creator of *Picket Fences*, *The Practice*, and *Ally McBeal* has a similar deal from Twentieth Century Fox and ABC as well. Bright/Kaufman/Crane Productions (*Friends*) has an agreement with Warner Brothers and Carsey-Werner (*Cosby*, *A Different World*, *Roseanne*, *Third Rock from the Sun*) has an agreement with Sony.

In a typical development deal, the studio pays the writer, producer, or production company a minimum annual payment and provides offices, studio facilities, a development fund, and other essential services. The studio gets first look at anything created under the agreement, typically under the normal pattern described in Section 11.2.1. If the studio gives the greenlight, it automatically gets the distribution rights and the syndication rights to the new series. The

funds spent on development are deducted from the earnings of the creations of the writer or producer generated under the arrangement. When the series is put on a network, the talent earns fees as an executive producer, even though they may only have superficial duties with the show. Royalties are also collected by the talent from the series for all future broadcasts.

11.2.3 Deficit Funding

Until the early 1980s, television shows were licensed to the networks for an amount that (theoretically) equaled the cost of production. Producers earned their profits from syndication of their series following the end of their network run (see Sec 11.3) and the networks earned the revenues from advertising sales. Since the early 1980s production costs have significantly increased, but the networks' licensing fees have not increased in the same proportion (largely due to the audience shrinkage referred to above, which has held down gains in advertising revenue). So, as a result, most television shows operate at a deficit. This deficit is the difference between actual cost of production and the license fee the network must pay. The producer or studio must absorb this deficit.

The average network license fee covers no more than 80 percent of the cost of production. Production costs for a one hour television series average between \$1,000,000 and \$2,000,000 and \$500,000 to \$1,500,000 for a half hour television series. On average, television series are licensed for approximately \$500,000 per episode for a sitcom and \$1 million to \$1.2 million for an hourlong dramatic show. Where a show includes costly special effects and/or pricey lead actors (which is especially true as series continue), the network agreement may provide for "breakage," *i.e.*, additional payments not characterized as license fees. However, television series almost always run substantial deficits. (One famous example: *Miami Vice*, which ran a deficit of more than \$500,000 a week, a sizeable sum for the period during which the series ran.) According to Tom Werner of Carsey/Werner, a 22-episode series season can result in a \$15 million deficit. Bernard Weinraub, "On TV, A Loss of Independents," *New York Times*, May 7, 2000, Sec. 2, p. 1. This is why almost all producers work in conjunction with studios. This deficit is a serious problem for major companies and an unmanageable burden for a small company. This is why the television production is dominated by the major studios (and, increasingly, by the networks themselves).

Hopefully, the deficit is made back in the syndication market (see Sec 11.3). The shows that do make it into syndication have to make a large enough profit so as to make up for the deficit on shows that do not make it into syndication. However, success in syndication is not guaranteed, so for some shows, the deficit is mitigated by co-production agreements with networks or smaller production companies. The studio wants to decrease its costs and the networks and smaller production companies want access to the syndication profits.

In some cases the deficit works the other way, in other words, in favor of the studios instead of the networks. In the case of *ER*, NBC has to pay Warner Brothers \$13,000,000 per episode. Thus, *ER* is one of the very few shows that makes a substantial profit in its first run. These are rare cases and are not the norm, but the money involved makes it important to mention.

11.3 SYNDICATION

The broadcast networks do not provide programming for the entire day. So, the affiliates must look elsewhere for programming to fill in the time not programmed

by the networks. Also, cable networks have to provide programming for the entire day. The most popular current syndicated programming genres are talk shows, game shows, entertainment and newsmagazines, off-network sitcoms and dramas and some original television shows produced specifically for syndication.

Syndication is simply selling a program individually to the affiliates in local markets or to a cable network. For a series to be attractive in syndication (where programming is customarily “stripped,” *e.g.*, shown five nights per week) it is usually necessary to have four years’ worth of shows (approximately 88 episodes, which enhances the risks of deficit financing, since most shows do not survive that long on the networks). Syndication is usually done through a straight cash deal, under a barter system, or a combination of the two. Under the straight cash system, the syndicator licenses the shows to each market for as much money as possible. However, this method has gradually fallen out of use. Under a barter system, the local licensee pays no cash; instead, the syndicator gets the right to a specified number of minutes of commercial time, which the syndicator then turns around and sells to advertisers.

The cash-plus-barter system has become the most common method of syndication. This method utilizes a cash payment to the syndicator, but not as much as what would occur under the straight cash method. In exchange for the lower cash payment, the syndicator also gets the right to sell commercial spots in the program. This has the advantage of limiting a station’s cash payment and at the same time providing a potentially greater upside to the syndicator. The amount the station has to pay depends on the popularity of the show and the size of the market. The more popular the show and the larger the market, the more that has to be paid out.

As stated in Section 11.2.3, studios (and now, in some instances, networks as well) look to make up their production deficits in the syndication market. In fact, off-network series (network television programs sold into syndication) get some of the biggest ratings. On average, eight of the top twenty syndicated shows are off-network programs. Some of the most popular syndicated shows at this writing include *Friends*, *Seinfeld*, *The X-Files*, and even the weekend edition of *Seinfeld*. Each of these shows gets between 4 and 6 million viewers each night. The deficits these shows have incurred are more than made up in syndication, and the top shows make enormous profits. After all, the cost of producing the show has already been spent, so syndication has only negligible costs. *Friends*, distributed by Warner Brothers, earns \$250,000 per episode in New York City and Los Angeles, and gets \$200,000 an episode in Chicago. These are the top markets; overall, the license fees amount to several million dollars per episode. Jerry Seinfeld and Larry David were catapulted into the top ten earning entertainers due to the mega-million dollar syndication deal for their show *Seinfeld*.

With the growing power of cable networks, syndicators are finding it even more profitable to sell to them. The cable networks, especially those that reach over 90 percent of the market, have bought exclusive rights to a number of off-network shows. For example, TNT paid more than \$1,000,000 per episode for the exclusive rights to *ER* and the USA Network paid \$750,000 per episode for the rights to *Walker, Texas Ranger*. These deals usually extend for three years, but as prices for these shows increase, the length of the contract will also increase. In many cases, syndicators only sell the weeknight rights to the cable networks. This way, they can sell the weekend rights to other local affiliates under

a cash-barter system. This is the case with *ER*, *The X-Files*, *NYPD Blue*, and other shows depending on the market.

Many large conglomerates that own studios and cable networks or affiliates try to keep their shows “in the family” so to speak, by licensing their off-network shows to their own cable networks or to their owned and operated broadcast affiliates. For example: 20th Century Fox’s cable network FX, televised *The X-Files* and *NYPD Blue* weeknights and also acquired the rights to the hit shows *Ally McBeal* and *The Practice*. All of these shows were produced by Twentieth Century Fox Television Studios. TNT, which bought the syndication rights to *ER*, and Warner Brothers, the producer, are both part of AOL Time Warner Inc., and The WB Network has *Friends* in syndication. In addition to increasing the drawing power (and, hopefully, profits) of an affiliate, this practice also provides outlets for less successful series to make up some of the money the studio has lost in deficit funding.

Original programming for syndication usually involves game shows such as *Wheel of Fortune* and *Jeopardy* or talk shows such as *The Rosie O’Donnell Show* and *Oprah*. These tend to be relatively cheap to produce and are “cleared” (i.e., shown) in nearly all of the 211 markets. There are some original dramatic television series that are produced for syndication. Though not the first original syndicated television series, *Star Trek: The Next Generation* was the first enormously successful original series, becoming the first syndicated show nominated for a primetime Emmy in 1994. *Hercules*, *Xena*, and *Baywatch* have also enjoyed success . . . The key to producing these television series is clearance in as many of the markets as possible as well as in international markets. This provides a base of revenue to cover production costs and then, based on the performance of the series, new deals can be worked out.

11.4 THE RATINGS GAME

Ratings are the life blood of television. Television shows live or die based on their ratings. The success of any show depends on a number of factors mostly based on ratings. Its ratings with the total viewing audience, its rating within key demographics, especially the key advertising demographic of 18 to 49 group, and how it performs compared to other shows in its time slot. All of this information is used by the networks to determine whether to renew or cancel a show.

Advertisers use the ratings to determine where to buy commercial spots. The networks make their money by selling the people who watch their shows to advertisers. Advertisers want to reach the most people for the least amount of money. The advertisers buy spots during the shows based on the specific amount it takes to reach one thousand viewers. This is commonly referred to as the cost per thousand or CPM. So, the amount the advertisers have to pay is based on the number of viewers of a particular television show. The advertisers also use the demographic breakdowns to determine where to place commercial spots. Certain products cater to certain audiences. For example, a toy company would much rather advertise on the Cartoon Network rather than Court TV. Ultimately, the ratings are the biggest factor in determining where to advertise.

The leading company in ratings is the Nielsen Company. The Nielsen Company sends reports to advertising agencies, sponsors, networks, media buyers, rep firms, producers, distributors, and local stations. All of these groups pay a subscription fee for this information. The Nielsen Company compiles the data

and computes it into a variety of charts and grids. The information in these charts includes the number of stations carrying the show, the percentage of the country that can see the show, the rating and the share for the total audience, viewers per thousand households, the number of households watching television at that time, and each quarter hour's rating. This information is also broken down by demographics such as age and sex.

The Nielsen Company collects its data by monitoring certain households for their viewing habits. These households are selected based on the statistical rules of sampling. The size and the composition of these households are supposed to represent the national viewership.

Nielsen monitors these households in two ways. The most accurate way is through the PeopleMeter. The PeopleMeter collects minute-by-minute viewing information. It reports whether the set is on, what channel is watched, and how long that channel has been watched. The remote control has special buttons that identify who is watching at that time. The second way is through entries in diaries. Selected households agree to make written entries into a diary noting each time the television is turned on, what channel it is set on, and who is doing the viewing. This system is less accurate because only about half of the selected households actually do the job properly.

The Nielsen Company gathers information on national audiences and local markets. For national audiences, the Nielsen Television Index is used to measure broadcast network audiences. Five thousand households are monitored by PeopleMeters. Monitoring of local markets is normally through the diary system. However, this is changing because of the unreliability of the diary system. Approximately forty markets have been converted to the meter system and this trend will continue. Nielsen also monitors cable ratings and syndication ratings, which are more difficult because they appear in different time slots in different markets.

The most important pieces of information provided by the Nielsen Company is the ratings, shares, and viewers. The rating of a program is the percentage of total television households whose sets were tuned to that program. The share of a program is the percentage of total viewing households whose televisions were tuned to that program. The difference between these two is that ratings indicate the absolute number of possible viewers, regardless of time period and the share is based on the number of televisions which are actually turned on. The Nielsen Company also tabulates the gross number of viewers watching a station each quarter hour.

In November, February, May, and July, Nielsen measures the viewers in all 211 markets, sweeping the entire country. These measurements are called "sweeps." The ratings from sweeps time are used to set the advertising rates for the next few months until the next sweeps period. These figures are not set in stone, but rather are used as a basis of negotiations. Sweeps time has been criticized since the networks use November, February, May, and to a much smaller degree July, to show high profile movies and much more exciting story lines. It has become a tradition and now it appears that the viewers expect the best story lines to come during sweeps.

The Nielsen Company has come under major criticism from networks and advertisers, who question the reliability of Nielsen's measurement samples and the way in which the data is collected, and who engaged Statistical Research, Inc. to develop a new system of audience measurement, called SMART, Systems

for Measuring and Reporting Television, using the existing wiring of viewers' homes, supposedly making measurement easier and more reliable.

11.5 INTERNATIONAL MARKETS

Television studios foreign networks as well as those in the United States. Each producing studio has an international distribution arm, which maintains offices in the larger market countries and has sales representatives in smaller market countries. Studios not only sell already produced shows, but also sell format rights. The foreign network or production company is allowed to take the same format and produce it in its own language demonstrating its own culture. (This has also worked in reverse: *All in the Family* and *Who Wants to Be a Millionaire* were both based on U.K. shows.) This is common with game shows and some other non-fiction shows. The most popular format shows are *Family Feud*, *Wheel of Fortune*, *Jeopardy*, and *Sesame Street*. Selling to international markets is another way the television production companies are able to operate with deficit funding.

Other countries have many television households. Russia has an estimated 56 million, India has 50 million, and Japan has 44 million. In Europe, Germany has 34 million, the United Kingdom has 24 million and France has 22 million. U.S. television studios try to license their shows in as many countries as possible. Canada is the largest market for U.S. television shows with active selling going on in Germany, the United Kingdom, France, Italy, and the Benelux and Scandinavian countries. Japan and Australia are only slightly smaller markets, while Brazil and Mexico are right behind them. The Middle East and Africa are of negligible importance due to extreme cultural differences and the lack of technology in many areas.

Many cable networks are international. Nickelodeon, CNN and the Cartoon Network are among the most successful. These usually involve partnerships, joint ventures, or other related collaborations with local entities. The U.S. program schedule is the basis of the local schedule, with local programs substituted where necessary. All of the U.S. programs are dubbed in the local language. Many countries fear the extent to which U.S. ideas become a part of their culture, and are therefore resistant to U.S. programming. France is notorious for its xenophobic attitudes towards the United States. So, each channel has to maintain the delicate balance between local presence and U.S. exports.

Another important factor in selling shows is the cultural tastes of the country. A show popular in the United States may not be popular in other countries because the issues dealt with are part of American cultural. So, they might not be understood in other countries. Some television shows are produced as joint ventures between European and U.S. companies. They are then shown on European networks and sold into syndication in the United States. One successful example of this was the *Highlander* series.

The U.S. share of foreign television markets is declining. In 1998, only 18% of all new shows launched abroad were U.S.-made, while 78% were made in Europe or Australia. *Daily Variety*, April 13, 1999, p. 1.

11.6 ANCILLARY MARKETS

Ancillary markets are not as significant a factor in the television industry as they are in film, but they can occasionally become a significant source of revenue. For

television, the ancillary markets encompass anything except what is seen on television. Possibilities include home videos, soundtracks, books, and all sorts of other collectibles.

When VCR's first became popular, television shows were never meant to be sold as home videos. Yet, *Star Trek*, the original series, made instant success being sold on home video. Then, each of the other *Star Trek* series were sold. By the time the last *Star Trek* series premiered, Columbia House and other home video clubs had entire divisions dedicated just to marketing various television shows. The list is growing and will continue to grow. From the popular hits like *I Love Lucy* and *Mission: Impossible* to cult classics like *The X-Files* and *The Prisoner*. A positive aspect of selling television series on home video is that it is not merely one tape, like on films, and people will want to buy all the episodes. So, if a series only has ten episodes, the person will have to buy five tapes at about \$20 a tape. It is a very profitable market.

The retail market of items based on television shows also provide major revenue for studios. Coffee cups, toys, board games and video games, posters, and soundtracks are all popular items. The success in this market all depends on the consumer interest in the television series. Obviously, cult television shows like *Star Trek* and *The X-Files* have an easier time in this market than shows such as *NYPD Blue* and *The Practice*. However, the studios will take advantage of all possible revenue producing markets.

11.7 FEDERAL COMMUNICATIONS COMMISSION

11.7.1 Licensing

The principal governing body for the television industry is the Federal Communications Commission, an independent regulatory agency created by the Communications Act of 1934 to take over the functions of the Federal Radio Commission and was given regulatory control over the fledgling television industry and interstate telephone and telegraph communication as well. It is a quasi-autonomous commission with elements of all three branches of government: legislative, executive, and judicial.

The main functions of the FCC are rule-making, licensing and registration, adjudication, and enforcement. In its rule-making capacity, the FCC issues new rules and regulations and amends existing ones. It exercises this power through its own internal procedures and under the auspices of federal law and the Administrative Procedure Act. A final order may be appealed for judicial review to the U.S. Court of Appeals for the District of Columbia. Through the licensing and registration function, the FCC controls broadcast television and cable networks. Broadcast licenses must be renewed every five to ten years. However, renewals are rarely a problem. Cable systems are not licensed; they merely have to register with the FCC. In its adjudication function, the FCC settles disputes between private parties or between the FCC. and private parties. Hearings are conducted by administrative law judges pursuant to the Administrative Procedure Act. The next steps are appeals to the FCC Review Board, then to the five commissioners, then to the U.S. Court of Appeals, and finally to the U.S. Supreme Court. Under its enforcement power, the FCC can impose penalties ranging from revocation of licenses to simple fines. Obviously, the FCC is in a position to exert informal influence over the industry as well.

11.7.2 Control of Broadcast Television

In addition to its licensing power, the FCC governs broadcast television in three significant ways. First, it is involved in network affiliate relations. Second, it limits the number of stations which one entity can own (although, as indicated, this control has been and is being eased). Third, it limits the broadcast hours of networks through the prime-time access rule.

The FCC has issued several regulations controlling the relationship between the networks and their affiliates. First, the networks cannot force the affiliate to take their programming. The affiliates may decline to take any program the network offers for a variety of reasons. Second, the affiliate can take programs from any source with which it can reach an agreement. Third, the network may not control the affiliates' advertising inventory by setting rates or by acting as a national sales representative.

The FCC limits the number of affiliates a network, or any other company, may own. The number is 35 percent of the total affiliates linked to each network. However, as noted in Section 11.1.2, the networks have achieved ownership in the key markets. This makes clearance of their shows and various syndicated series easier. Furthermore, since major companies own groupings of most other affiliates, there are very few solely owned affiliates. Thus, the regulatory intent to protect local broadcasting, is largely defeated.

The prime-time access rule limits the network programming to three hours of the four hour prime-time slot in the top 50 markets. The purpose of this rule was to encourage local programming, public affairs programming and independent suppliers. However, syndicators have found this hour to be especially profitable. This is the time slot that off-network sitcoms and game shows have become common place on an affiliate station. Kingworld has made a fortune in this time slot with shows like *Wheel of Fortune* and *Jeopardy*.

11.7.3 Controlling Cable Television

Until the 1960s the FCC left the cable television industry alone. At that point, cable emerged as competition for the broadcast networks, so the FCC began to regulate the cable industry, even though it was not given that express authority until the Cable Act of 1984. However, many of the regulations established before the 1984 act were still in effect after the grant of power. Today dramatic changes have taken place in the 1984 Act as revised in the 1992 and the 1996 Acts.

The FCC regulates cable companies in several ways in addition to the registration requirement. The first major regulation is the "must carry" rule. Originally, cable systems were required to carry all local broadcast channels. Due to First Amendment concerns, Congress revised the rule in 1992. A local station was given the choice between granting a free retransmission consent on a "must carry" basis or negotiating an arm's-length retransmission agreement with the cable system ("retransmission consent"). In order to implement this system, the FCC established three groups within the cable systems. The first group is cable providers with less than 12 channels, the second group has between 12 and 36 channels, and the third group has more than 36 channels. The first group must carry in some way at least three local commercial and one public station. The other two groups must carry all the local commercial stations and public stations.

The FCC also regulates rates . . . Without any competition, cable companies

became natural monopolies and the rates were increasing far faster than inflation. These increases, compounded with complaints of substandard services, caused Congress to grant to the FCC the power to set rates for cable companies. Rate setting is accomplished by a simple benchmark approach or by a more complicated cost-effectiveness approach. The goal is to keep cable rates in proportion to the general inflation rate. This rate regulation will not apply to systems where effective competition exists.

Some other regulations exist. First, cable companies cannot import a distant signal to circumvent the blackout of a local sporting event. For example, the National Football League blackouts games in a certain geographical area if the game is not sold out. This rule prevents a local cable company from importing a signal from a station outside of that geographical area. Second, the Cable Act of 1984 has made it illegal to take signals from a cable system without authorization. Severe penalties exist for distribution of “black boxes” which descrambles the cable signal, thus, allowing people to receive the cable channels for free.

For more information on FCC regulations, a Communications Law Treatise should be reviewed.

11.8 ISSUES IN TELEVISION DISTRIBUTION

11.8.1 Antitrust: Block Booking

In Section 10.3, we considered antitrust issues arising in the context of film distribution. Similar issues have arisen in the television industry as well. For many years, television syndicators have offered films in packages. As the *Loew's, Inc.*, case shows, however, it is unlawful to insist that a station license an entire package. However, the determination of what constitutes a “package” is not always obvious, as we see in the *Metromedia* case and *Viacom* note which follow.

United States v. Loew's, Inc., 371 U.S. 38 (1962)

MR. JUSTICE GOLDBERG delivered the opinion of the court.

These consolidated appeals present as a key question the validity under 1 of the Sherman Act of block booking of copyrighted feature motion pictures for television exhibition. We hold that the tying agreements here are illegal and in violation of the Act.

. . . [T]he defendants had, in selling to television stations, conditioned the license or sale of one or more [pre-1948] feature films upon the acceptance by the station of a package or block containing one or more unwanted or inferior films. No combination or conspiracy among the distributors was alleged; nor was any monopolization or attempt to monopolize under 2 of the Sherman Act averred. The sole claim of illegality rested on the manner in which each defendant had marketed its product. The successful pressure applied to television station customers to accept inferior films along with desirable pictures was the gravamen of the complaint . . .

[As one of many examples of offending conduct, the Court described the actions of] Associated Artists Productions, Inc., [which] negotiated four contracts that were found to be block booked. Station WTOP was to pay \$118,800 for the license of 99 pictures, which were divided into three groups of 33 films, based on differences in quality. To get “Treasure of the Sierra Madre,” “Casablanca,”

“Johnny Belinda,” “Sergeant York,” and “The Man Who Came to Dinner,” among others, WTOP also had to take such films as “Nancy Drew Troubleshooter,” “Tugboat Annie Sails Again,” “Kid Nightingale,” “Gorilla Man,” and “Tear Gas Squad.” A similar contract for 100 pictures, involving a license fee of \$140,000, was entered into by WMAR of Baltimore. Triangle Publications, owner and operator of five stations, was refused the right to select among Associated’s packages, and ultimately purchased the entire library of 754 films for a price of \$2,262,000 plus 10% of gross receipts. Station WJAR of Providence, which licensed a package of 58 features for a fee of \$25,230, had asked first if certain films it considered undesirable could be dropped from the offered packages and was told that the packages could not be split.

Defendant National Telefilm Associates was found to have entered into five block booked contracts. Station WMAR wanted only 10 Selznick films, but was told that it could not have them unless it also bought 24 inferior films from the “TNT” package and 12 unwanted “Fabulous 40’s.” It bought all of these, for a total of \$62,240. Station WBRE, before buying the “Fox 52” package in its entirety for \$7,358.50, requested and was refused the right to eliminate undesirable features. Station WWLP of Springfield, Massachusetts, inquired about the possibility of splitting two of the packages, was told this was not possible, and then bought a total of 59 films in two packages for \$8,850. A full package contract for National’s “Rocket 86” group of 86 films was entered into by KPIX of San Francisco, payments to total \$232,200, after KPIX requested and was denied permission to eliminate undesirable films from the package. Station WJAR wanted to drop 10 or 12 British films from this defendant’s “Champagne 58” package, was told that none could be deleted, and then bought the block for \$31,000 . . .

This case raises the recurring question of whether specific tying arrangements violate 1 of the Sherman Act. This Court has recognized that “[t]ying agreements serve hardly any purpose beyond the suppression of competition,” *Standard Oil Co. of California v. United States*, 337 U.S. 293, 305–306. They are an object of antitrust concern for two reasons—they may force buyers into giving up the purchase of substitutes for the tied product, see *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594, 605, and they may destroy the free access of competing suppliers of the tied product to the consuming market, see *International Salt Co. v. United States*, 332 U.S. 392, 396. A tie-in contract may have one or both of these undesirable effects when the seller, by virtue of his position in the market for the tying product, has economic leverage sufficient to induce his customers to take the tied product along with the tying item. The standard of illegality is that the seller must have “sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product. . . .” *Northern Pacific R. Co. v. United States*, 356 U.S. 1, 6. Market dominance—some power to control price and to exclude competition—is by no means the only test of whether the seller has the requisite economic power. Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product’s desirability to consumers or from uniqueness in its attributes.

The requisite economic power is presumed when the tying product is patented or copyrighted. . . . This principle grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent. . . . These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the

patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles.

Since one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences. . . .

A copyrighted feature film does not lose its legal or economic uniqueness because it is shown on a television rather than a movie screen.

The district judge found that each copyrighted film block booked by appellants for television use "was in itself a unique product"; that feature films "varied in theme, in artistic performance, in stars, in audience appeal, etc." and were not fungible; and that since each defendant by reason of its copyright had a "monopolistic" position as to each tying product, "sufficient economic power" to impose an appreciable restraint on free competition in the tied product was present, as demanded by the *Northern Pacific* decision. 189 F. Supp., at 381. We agree. These findings of the district judge, supported by the record, confirm the presumption of uniqueness resulting from the existence of the copyright itself.

Moreover, there can be no question in this case of the adverse effects on free competition resulting from appellants' illegal block booking contracts. Television stations forced by appellants to take unwanted films were denied access to films marketed by other distributors who, in turn, were foreclosed from selling to the stations. Nor can there be any question as to the substantiality of the commerce involved. . . . A substantial portion of the licensing fees represented the cost of the inferior films which the stations were required to accept. These anticompetitive consequences are an apt illustration of the reasons underlying our recognition that the mere presence of competing substitutes for the tying product, here taking the form of other programming material as well as other feature films, is insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product. . . . By the same token, the distinctiveness of the copyrighted tied product is not inconsistent with the fact of competition, in the form of other programming material and other films, which is suppressed by the tying arrangements.

It is therefore clear that the tying arrangements here both by their "inherent nature" and by their "effect" injuriously restrained trade. . . .

Appellant C & C in its separate appeal raises certain arguments which amount to an attempted business justification for its admitted block booking policy. C & C purchased the telecasting rights in some 742 films known as the "RKO Library." It did so with a bank loan for the total purchase price, and to get the bank loan it needed a guarantor, which it found in the International Latex Corporation. Latex, however, demanded and secured an agreement from C & C that films would not be sold without obtaining in return a commitment from television stations to show a minimum number of Latex spot advertisements in conjunction with the films. Thus, since stations could not feasibly telecast the minimum number of spots without buying a large number of films to spread them over, C & C by requiring the minimum number of advertisements effectively forced block booking on those stations which purchased its films. C & C contends the block booking was merely the by-product of two legitimate business motives—Latex' desire for a saturation advertising campaign, and C & C's wish to buy a large

film library. However, the obvious answer to this contention is that the thrust of the antitrust laws cannot be avoided merely by claiming that the otherwise illegal conduct is compelled by contractual obligations. Were it otherwise, the antitrust laws could be nullified. . . .

The United States contends that the relief afforded by the final judgments is inadequate and that to be adequate it must also: (1) require the defendants to price the films individually and offer them on a picture-by-picture basis; (2) prohibit noncost-justified differentials in price between a film when sold individually and when sold as part of a package; (3) proscribe “temporary” refusals by a distributor to deal on less than a block basis while he is negotiating with a competing television station for a package sale. . . .

Under the final judgments entered by the court, a distributor would be free to offer films in a package initially, without stating individual prices. If, however, he delayed at all in producing individual prices upon request, he would subject himself to a possible contempt sanction. The Government’s first request would prevent this “first bite” possibility, forcing the offer of the films on an individual basis at the outset (but, as we view it, not precluding a simultaneous package offer . . .).

This is a necessary addition to the decrees, in view of the evidence appearing in the record. Television stations which asked for the individual prices of some of the better pictures “couldn’t get any sort of a firm kind of an answer,” according to one station official. He stated that they received a “certain form of equivocation, like the price for the better pictures that we wanted was so high that it wouldn’t be worth our while to discuss the matter, . . . the implication being that it wouldn’t happen.” A Screen Gems intracompany memorandum about a Baton Rouge station’s price request stated that “I told him that I would be happy to talk to him about it, figuring we could start the old round robin that worked so well in Houston & San Antonio.” Without the proposed amendment to the decree, distributors might surreptitiously violate it by allowing or directing their salesmen to be reluctant to produce the individual price list on request. This subtler form of sales pressure, though not accompanied by any observable delay over time, might well result in some television stations buying the block rather than trying to talk the seller into negotiating on an individual basis. Requiring the production of the individual list on first approach will obviate this danger. . . .

The final judgments as entered only prohibit a price differential between a film offered individually and as part of a package which “has the effect of conditioning the sale or license of such film upon the sale or license of one or more other films.” The Government contends that this provision appearing by itself is too vague and will lead to unnecessary litigation. Differentials unjustified by cost savings may already be prohibited under the decree as it now appears. Nevertheless, the addition of a specific provision to prevent such differentials will prevent uncertainty in the operation of the decree. To ensure that litigation over the scope and application of the decrees is not left until a contempt proceeding is brought, the second requested modification should be added. The Government, however, seeks to make distribution costs the only saving which can legitimately be the basis of a discount. We would not so limit the relevant cost justifications. To prevent definitional arguments, and to ensure that all proper bases of quantity discount may be used, the modification should be worded in terms of allowing all legitimate cost justifications. . . .

The Government's third request is, like the first, designed to prevent distributors from subjecting prospective purchasers to a "run-around" on the purchase of individual films. No doubt temporary refusal to sell in broken lots to one customer while negotiating to sell the entire block to another is a proper business practice, viewed *in vacuo*, but we think that if permitted here it may tend to force some stations into buying pre-set packages to forestall a competitor's getting the entire group. In recognition of this the Government seeks a blanket prohibition against all temporary refusals to deal. We agree in the main, except that the modification proposed by the Government fails to give full recognition to that part of this Court's holding in *Paramount Pictures* which said,

We do not suggest that films may not be sold in blocks or groups, when there is no requirement, express or implied, for the purchase of more than one film. All we hold to be illegal is a refusal to license one or more copyrights unless another copyright is accepted. 334 U.S., at 159.

We therefore grant the Government's request, but modify it only to the limited degree necessary to permit a seller briefly to defer licensing or selling to a customer pending the expeditious conclusion of bona fide negotiations already being conducted with a competing station on a proposal wherein the distributor has simultaneously offered to license or sell films either individually or in a package.

The modifications we have specified will bring about a greater precision in the operation of the decrees. We have concluded that they will properly protect the interest of the Government in guarding against violations and the interest of the defendants in seeking in good faith to comply. . . .

**Metromedia Broadcasting Corp. v. MGM/UA Entertainment Co., 611
F.Supp. 415 (C.D.Cal. 1985)**

[After "Fame," a weekly series depicting the adventures of students at a New York high school for the performing arts, was dropped by the network, MGM/UA continued to produce episodes for so-called "first-run syndication," licensing them directly to independent local stations. MGM/UA offered a package of 136 episodes, 88 of which were already in existence, and 48 of which were yet to be produced. Metromedia was willing to license the new episodes, but balked at taking the "in-the-can" material, and brought suit, claiming (1) that MGM/UA had refused to negotiate exclusively and in good faith with Metromedia as to the new episodes, (2) that in requiring that Metromedia accept the older material in order to show the new material, MGM/UA was engaging in an illegal "tie-in" in violation of 1 and 2 of the Sherman Act and 3 of the Clayton Act.]

RYMER, J.

. . . Each episode of "Fame" is copyrighted. "Fame" is (by definition) unique; and there appear to be few network-quality syndicated first run dramatic works on the market (examples would be "Too Close for Comfort" and "Paper Chase"), although numerous syndicated first run programs of other sorts are available (such as sporting events and game shows). MGM/UA linked the future licensing of first runs with reruns. . . .

Metromedia argues that first run episodes are a separate product from strip syndicated reruns, because each attracts a different level of advertising revenue

and viewership, and is traditionally purchased separately . . . [that] MGM/UA has sufficient market power in the tying product ["Fame" first runs] on account of its holding copyrights on "Fame" and defendants' conduct is virtually identical to the block-booking found *per se* illegal in *United States v. Loew's, Inc.* [1962 Trade Cases par. 70,537], 371 U.S. 38 (1962); conditioning the purchase of first runs on reruns reflects an attempt by MGM/UA to gain a competitive advantage in the market for reruns. . . .

MGM/UA contends, on the other hand, that there is no unlawful tie-in because the bundle of rights subsumed under the "Fame" copyright are a single product which distinguishes the packaging of "Fame" first runs and "Fame" reruns from the block-booking condemned in *Loew's*; . . . no relevant market has been monopolized because there is no such market as the "strip syndicated rerun" market and monopoly power can't exist simply because "Fame" (like all dramatic works) is unique; there has been no attempt to monopolize any relevant market because defendants' conduct does not clearly threaten competition nor is it clearly exclusionary. . . .

Unlike the block-booking in *Loew's* . . . MGM/UA did not condition the license of, or use leverage from, one copyrighted property (like *Star Wars*) to license another, unrelated (and unwanted) property (like *Planet of the Apes*). It did offer two rights, the right to telecast first runs (which Metromedia wants) with the right to telecast reruns (which Metromedia does not want but Tribune [another station group] took). However, both these rights inhere in the copyright. 17 U.S.C. sec. 106. Therefore a substantial question exists about plaintiff's ability to show that the scope of the monopoly is enlarged by the granting of one license only, cf. *Paramount* . . . or that competition is suppressed beyond that which is permitted by the copyright laws.

In its recent decision in *Jefferson Parish Hosp. Dist. No. 2 v. Hyde* [1984-1 Trade Cases par. 65,908],—U.S.—, 104 S.Ct. 1551, 80 L.Ed. 2d 2 (1984), the Supreme Court defined the test for separate products to be whether the arrangement "link[s] two distinct markets for products . . . distinguishable in the eyes of buyers." 104 S.Ct. 1562. This, in turn, depends not on the functional relation between the two items, but on the character of the demand for them. *Id.* at 1562. The test is intended to prohibit only those arrangements which create the possibility of "foreclos[ing] competition on the merits in a product market distinct from the market for the tying item." *Id.* at 1563.

In *Hyde* the Court found that two distinguishable services were provided in a single transaction in part because anesthesiological services could efficiently be offered separately from hospital services and were billed separately, so that consumers differentiated between anesthesiological services and the other hospital services provided by the defendant. In this case, plaintiff is likely to show that syndicated reruns generally are offered separately from first runs; but neither side has adduced evidence of how syndicated reruns are marketed vis-a-vis *syndicated* first runs. That there may be a difference is suggested by the original programming package in this case, which included first runs and reruns. There is no track record with respect to whether "Fame" reruns and first runs could be separately *sold*; however, there is evidence that they could not be simultaneously *shown* without confusing the viewer and diluting the value of both. Although first runs and reruns generally appear to be independently priced, and first run rights to "Fame" are essentially barter [*i.e.*, furnished to the local station free of charge under an arrangement whereby the syndicator usually gets half

the advertising minutes, which it then turns around and sells for its own account] while reruns are essentially cash, those “Fame” reruns that were part of the original programming package were priced together with first run episodes on a barter basis. Thus the normal distinction may be blurred in this case. Finally, although not directly relevant since the competition impacted is among producers trying to syndicate reruns or television stations that are rerun consumers, the public would appear to perceive reruns differently from first runs in that ratings (and in turn advertising revenues) are less for reruns than for their corresponding first runs. . . . However, there is nothing in the record to suggest that some reruns are not perceived more favorably than first runs (or other reruns) against which they may be competing in any given time slot or any given market.

Plaintiff faces a further difficulty because of how it posits power in the tying market. For that purpose, Metromedia defines the tying product as “Fame”’s copyright and uniqueness. In other words, all of “Fame” that inheres in the copyright is the product from which market power derives. However, the “tied” product has the same copyright and uniqueness. Accordingly the copyright and/or uniqueness that constitutes the tying product is not distinguished from the product to which it is tied.

On balance, while a serious question may be raised about whether the demand for first runs is separate from that for reruns under *Hyde*, that may not be material when the licensing of a single intellectual property is at issue. *Cardinal Films; Waldbaum*. In such a case competition on the merits of unrelated properties, whether in strip syndication or first run, is unlikely to be implicated for any reason other than quality. Thus, to carve up the “Fame” copyright would not appear to serve the competitive purposes of the rule against tying.

Market power

The tie of one product to another is *per se* illegal only if the seller possesses sufficient market power in the tying product [“Fame” first runs] appreciably to restrain trade in the tied product [“Fame” reruns]. Forcing must be probable. *Hyde*, 104 S.Ct. at 1560. Assuming a threshold showing of a substantial potential for impact on competition (as, for example, when a tie affects more than a single purchaser or a substantial volume of commerce is foreclosed), *Hyde* reaffirms the proposition that a seller, in this case MGM/UA, may be presumed to have the power in the tying product [“Fame” first runs] when it holds a copyright or has an otherwise unique item. But see *Hyde*, 80 L.Ed. 2d at 25 (O’Connor, J., concurring opinion). In so doing the Court relied on the rationale of *Loew’s*, as follows: “Any effort to *enlarge the scope* of the patent monopoly by using the market power it confers to restrain competition in the market for a *second* product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful. . . . In each of these cases *per se* illegality was premised on misuse of the copyright or patent or unique commodity to foreclose competition on an item bearing an *unrelated* copyright or patent or attribute. . . . Because the scope of the defendants’ monopoly has not been enlarged so as to impact sales of anything other than a right included within the copyright on “Fame,” I doubt the applicability of the *per se* rule.

Neither side makes any particularly extensive analysis of the markets in which first runs and/or reruns are sold, *Hyde*, 104 S.Ct. at 1561. There is insufficient

evidence in the record from which to conclude whether the relevant market would be all television shows, or all first runs, or all syndications, or syndicated first runs, or some combination of these—or nationwide, or territory by territory, or independent network by independent network; or whether the relevant competitors would be all producers of first run episodes, or only of syndicated first run episodes, or only of first run episodes which have been (prematurely) cancelled for network play. Nor is there any substantial indication of what MGM/UA's share of any of these markets would be. The contract at issue has an effect on six Tribune stations plus one independent in St. Petersburg; or seven Metro-media stations. Thus, I cannot say that plaintiff is likely to show that defendants' share of any relevant market is more than the shares held insufficient in *Hyde* and *Times-Picayune*.

There likewise is no way to determine whether there are close substitutes in any meaningful market. Plaintiff raises a potentially serious question with respect to power in the market for syndicated first runs, since there evidently are but a handful of dramatic works now in production. However I cannot conclude that there is any reasonable likelihood of such a restricted market's being defined. Finally, there is nothing to suggest that television stations are not price conscious or are without ample information about the quality of competing properties.

Restraint or effect on rerun market

Plaintiff raises an issue (based on hearsay evidence), which may be serious, about a glut on the rerun market in general that may give MGM/UA the ability to foreclose competition in the syndication market because of leverage which comes from its relatively unique position as producer of syndicated first runs. However there is no evidence that quality or supply or television station choice or demand, is affected, or likely to be affected, by the tying arrangement at issue (except inferentially to the extent that money otherwise being paid for "Fame" would be spent on different reruns—for which there is no support in the record). Since MGM/UA could exert the market power directly in the tying product which it legitimately has through ownership of the "Fame" property by affixing any price it wishes to the first run license, it may be irrelevant that it does so indirectly by "forcing" a station to buy the rerun rights. This may particularly be the case when to do so is the only means by which to reverse negative cash flow, recoup costs of production, and continue to create new episodes.

Damages

In order for plaintiff to prevail on the merits it must also show injury causally related to defendants' antitrust violation. . . . *Hyde* recognizes that it is not unlawful for one with market power simply to increase the price of the tying product so long as competition on the merits in the market for the tied product is not impaired in order to insulate an inferior product from competitive pressures. Simply to show that a noncompetitive price has been paid for the product which is tied is not enough. . . . Accordingly, "to demonstrate the injury necessary to establish defendant's liability, plaintiff must prove that the payment for both the tied and tying product exceeded their combined fair market value." *Casey*, 59 F. Supp. at 1571. There is no indication that this is the case. . . .

Irreparable injury

Metromedia argues that "Fame" is the centerpiece of its new programming image for which there is no substitute, that it has been a door-opener to an

important viewing audience of urban youth, and that "Fame" has become identified with Metromedia through a substantial advertising campaign. Because of this it claims irreparable injury from loss of image, momentum and goodwill as well as revenue from spot sales and barter. MGM/UA contends that Metromedia's interest is only economic and that loss of viewers and injury to reputation are compensable in money damages.

I do not believe that irreparable injury has been shown. First, Metromedia's existence is not threatened in any respect. Whatever its loss of revenue on account of an antitrust violation, or MGM/UA's failure to negotiate, is compensable in damages. *Cass Communications*. Second, the difference between advertising revenue generated on "Fame" and a replacement is measurable. Metromedia has both a track record on "Fame" (as well as adjacent time periods), along with audience surveys and ratings, as a basis for comparison and calculation of loss. An even more direct basis for comparison will exist in the two markets in which there is overlap with Tribune. . . . Third, while "Fame" (like all works of art) is unique and its loss may affect Metromedia's momentum, it also may not; taste, like "Fame," is fleeting and there is nothing to show that a substitute may not catch on even more. To this extent the injury claimed is theoretical and not properly the basis for preliminary relief. *A.L.K. Corporation v. Columbia Pictures Industries, Inc.*, 440 F.2d 761 (3rd Cir. 1971); but see *Courier Times, Inc. v. United Feature Syndicate, Inc.*, 445 A.2d 1288 (Pa. Super. Ct. 1982) (irreparable injury on account of loss of unique product, "Peanuts," came from premier position assigned to "Peanuts" by the Inquirer in its effort to attract former Bulletin readers). Nor does it appear that loss of good will should be differently treated. In effect Metromedia has already placed a value on all of "Fame" (first runs and reruns) by the offer it made to MGM/UA. Finally, it has always been possible for Metromedia to lose "Fame." At the end of either last season or this, MGM/UA could itself have decided not to produce new episodes. That being the case, Metromedia must have considered the risk worth taking, or put another way, not irreparable.

By the same token MGM/UA stands also to suffer, if the relief requested were granted. The Tribune sale would be lost and possibly also the property. Without support from syndicated reruns it may be unable to continue first run production. Some additional deference to possible harm to MGM/UA is indicated because Metromedia delayed seeking relief until the time for commitments for the 1985-86 season is imminent, despite the fact that the package to which objection is made was proposed in October, four months ago. *Capital Cities*, Slip Op. at 9-10.

Conclusion

Given the extraordinary nature of relief that is sought, the likely unenforceability of a right of first negotiation, the lack of a convincing showing that each of the constituent elements of an unlawful tying arrangement exists, the probable compensability of whatever injury is proved, and the potential for harm to MGM/UA as well, I cannot conclude that irreparable injury will occur or that the balance of hardships tips so sharply in Metromedia's favor that the requisite showing is made. Accordingly, plaintiff's motion for a preliminary injunction is denied. . . .

NOTE

Of course, not every dispute arising out of a package license arrangement rises to the level of an antitrust case. In many cases, problems arise out of imprecise drafting and/or the behavior of the parties to a specific agreement. For example, in *Viacom International, Inc. v. Lorimar Productions, Inc.*, 486 F. Supp. 95 (S.D.N.Y. 1980), the issue was whether two programs, “Sybil” and “Helter Skelter,” each of which was telecast in two two-hour segments, were “television movies” (the contention of Viacom, the licensee) or “mini-series” (Lorimar’s position). If the former, they would already be subsumed under the license; if the latter, Viacom would not automatically get these programs but would have a right of first negotiation and a right to match any subsequent third party offer, a far less attractive position. Based on the parties’ course of dealing, and on industry custom and usage, the court held that the programs were “television movies.”

11.8.2 Antitrust: Geographical Restrictions

Part of the economic power of a television series lies in the ability of a licensee to obtain exclusive rights to show the series within its broadcast area. As the following case indicates, it is not always possible to define markets with sufficient precision to satisfy all concerned.

Ralph C. Wilson Industries, Inc. v. American Broadcasting Companies, Inc., 598 F. Supp. 694 (N.D.Cal. 1984)

CONTI, J.

. . . Plaintiff is the owner of a television station, [in San Jose, California, south of San Francisco. Plaintiff claims] that defendants have violated the antitrust laws because of various practices they follow concerning the licensing of programs and conspiracies to boycott plaintiff. Plaintiff is pursuing three claims against defendants based upon these alleged practices. First, plaintiff claims that all defendants have violated the Sherman Act by unreasonably restraining trade . . . by licensing programs on an exclusive basis as against plaintiff, by making the licenses unreasonably long and by incorporating, implicitly or explicitly, rights of first refusal into those licenses. Secondly, plaintiff claims that the station defendants have committed a *per se* violation of the Sherman Act by a horizontal conspiracy to boycott plaintiff. Plaintiff alleges that these three defendants have conspired, through direct communication, to exercise exclusivity of programming against plaintiff . . .

A. Rule of Reason Claim.

Plaintiff’s primary claim against the defendants is that they have unreasonably restrained trade through a vertical contract by their combined practices of licensing television programs on an exclusive basis, making the licenses unreasonably long, and by implicitly or explicitly incorporating rights of first refusal into those licenses. . . .

The unreasonable restraint of trade complained of is as follows. The supplier defendants herein are in the business of licensing television programs to television stations. The undisputed practice of these suppliers is to license programs to the stations on an exclusive basis after a competitive bidding process among interested stations. Thus, for example, a supplier would sell an exclusive license for “M*A*S*H” to defendant KTVU, who would then be the only station in that

area permitted to air “M*A*S*H” (or specified episodes of “M*A*S*H”) for the duration of the license.

It is undisputed that the station defendants herein enforce this exclusivity against all television stations, including plaintiff, which they consider to be located in the “San Francisco” market area. This area includes San Francisco, Oakland and San Jose, as well as most of the area around these cities. . . . The scope of this exclusive licensing area is determined on the basis of the A. C. Nielsen Co. and Arbitron Co. ratings services’ categorization of geographic area into market groups, both of which ratings services include San Francisco and San Jose in the same market group.

Plaintiff does not contend that the practice of licensing television programs on an exclusive basis automatically violates the Sherman Act’s prohibition of restraints of trade. In fact, plaintiff itself licenses programs on an exclusive basis. All parties agree that exclusive licenses, as such, may further competition by providing an incentive to the station to invest in promotion and development of the program product and do not constitute a *per se* violation of Section 1 . . . [Instead,] Plaintiff argues that the station defendants are entitled to license programs on an exclusive basis, but that that exclusivity should not apply to plaintiff because it is not in the same “relevant market” as the station defendants. Plaintiff submits that the station defendants are licensed to and operate in the San Francisco-Oakland Bay Area market. Plaintiff argues that it, on the other hand, is located in and operates in the “South Bay.” (Plaintiff does not define the area included within the “South Bay,” but it apparently covers San Jose and other areas in and around Santa Clara County.) Accordingly, plaintiff contends that it should be placed in a different geographic market than the station defendants for exclusivity purposes . . . Thus, plaintiff argues that the exclusive licenses violate the antitrust laws because they are overbroad in geographic scope, are unreasonably long in duration and incorporate unreasonable rights of first refusal. . . .

The economic motivation for this suit is to enable plaintiff to license quality programming [from the defendant distributor] at a price below that paid by the station defendants, such as KTVU, for their exclusive licenses to such programs. It is uncontested that the level of prices for exclusive licenses for quality programming is primarily determined by the broadcast market of the prospective licensees. Presently, all the station defendants and plaintiff are placed in the same market for purposes of bidding for the supplier defendants’ quality programming. Thus, if defendant KTVU bids \$150,000 for an exclusive license for “M*A*S*H,” plaintiff must better that bid to obtain the license. Plaintiff has made no argument and there is no evidence showing that plaintiff has been excluded from bidding for quality programming at these price levels. In fact, the evidence shows that if plaintiff wished to bid at this “San Francisco” market price, it could obtain quality programming.

Plaintiff contends that, as a small UHF station, it is not commercially feasible for it to bid at the same price levels as the station defendants to obtain quality programming. What plaintiff seeks is to be placed in some market other than that containing the station defendants for purposes of bidding for quality program licenses. If, for example, plaintiff were placed in the Salinas-Monterey market, in which non-party channel 11 is placed, it could bid for quality programming at a much lower price than that paid by the station defendants. The outcome would be, for example, that defendant KTVU would obtain a license for

“M*A*S*H,” exclusive against the other San Francisco stations, but not plaintiff, for \$100,000, while plaintiff could also license “M*A*S*H,” exclusive against other South Bay stations, for, say, \$15,000. That is the result plaintiff seeks to achieve by means of this antitrust suit. This, then, is the factual basis for plaintiff’s rule of reason antitrust claim.

[To win, the plaintiff would have to show injury to competition through an unreasonable restraint, which would, in turn, require plaintiff to show either] that the restraint is unreasonable because it applies to television stations which are not in “substantial competition” with each other [or] that the challenged practices of exclusivity, length of license and rights of first refusal, are “unreasonable” under the circumstances of this case. . . . For the reasons set forth below, the court holds that plaintiff has not, as a matter of law, met its burden of offering evidence sufficient to support a finding that defendants’ exclusivity practices unreasonably restrain trade.

1. Injury to Competition.

. . . [The] court must first determine what is the “relevant market” in which competition has allegedly been restrained. See *Gough v. Rossmoor*, 585 F.2d at 385–89. This “relevant market” is generally determined by reference to both the relevant product market and the relevant geographic market. See, e.g., *Harris & Jorde, Antitrust Market Definition: An Integrated Approach*, 72 Cal.L.Rev. 1, 46–52 (1984). In this case, the parties agree, and the court accepts, that the relevant product market is quality television programming. The relevant geographic market, however, is more complex. . . .

Plaintiff contends that the relevant geographic market is the “South Bay.” . . . [However,] the commercial realities are so clear that the court holds that the relevant geographic market is the entire San Francisco-Oakland-San Jose Bay Area, as currently defined.

These commercial realities are as follow. First, the Federal Communications Commission (FCC) considers San Jose and San Francisco to be in the same market. See 47 C.F.R. 76.51; Memorandum Opinion, 37 R.R.2d 695, 698 (1976); 40 R.R.2d 473, 477–78 (1977). Secondly, the two recognized national ratings services, A. C. Nielsen Co. and Arbitron Co., consider San Jose and San Francisco to be in the same market. . . . Thirdly, there is a large overlap in the signal coverage of plaintiff’s and the station defendants’ signals. . . . Finally, plaintiff and the station defendants share a substantial overlap of viewers. . . .

These facts are so clear that a reasonable jury would have to find that the relevant geographic market is the entire San Francisco Bay Area, including San Jose. Accordingly, the court holds that the relevant market in this case is the San Francisco Bay Area quality television programming market. . . .

[I]t is not sufficient for plaintiff to establish an injury to itself or its own competitive position. . . . This is all plaintiff has done. Plaintiff offers no evidence tending to show that it cannot obtain quality programming, that prices are fixed, that program offerings are detrimentally affected, or that program output has in any way been restricted. Some showing of this type is necessary to establish injury to competition. . . .

Plaintiff has offered no evidence showing that any one defendant has market power. The evidence shows that the ten or more Bay Area stations all compete vigorously in both the South Bay and the Bay Area as a whole. The evidence also shows that the supplier defendants actively compete in both areas. . . . There

is no evidence showing that any one defendant has the power to significantly affect prices, available programming, or any other important market component. Consequently, plaintiff has not offered evidence sufficient to go to jury on the issue whether a defendant has market power.

. . . Plaintiff has not shown that the exclusivity practices actually injure competition or that any defendant has market power. Accordingly, the court holds that plaintiff cannot prevail on its rule of reason claim. Defendants are consequently entitled to summary judgment . . .

[But even if plaintiff had shown injury to competition,] plaintiff must then show that the exclusivity practices are “unreasonable.” The first way plaintiff may establish this is by offering sufficient evidence to show that plaintiff and defendants are not in “substantial competition.” If plaintiff is not in substantial competition with defendants, the exclusivity practices are presumptively unreasonable. See *United States v. Paramount Pictures, Inc.*, 334 U.S. at 144–48, 68 S.Ct. at 922–24. If the parties are in substantial competition, plaintiff must then offer evidence showing that the challenged exclusivity practices are unreasonable given the particular circumstances of this case. . . .

[However,] the station defendants actively compete with plaintiff for viewers, quality programming and advertising in both the San Francisco Bay Area and the South Bay markets [and] plaintiff has failed to offer evidence to support a finding that the exclusivity practices herein, consisting of the geographic breadth of the exclusivity, the length of the licenses and the alleged rights of first refusal, are unreasonable under the circumstances of this case.

The court holds that no reasonable jury could find that the practices complained of herein are unreasonable. The parties agree that exclusivity, in itself, is a reasonable practice in the television programming industry. Such exclusivity gives the licensee the incentive to promote and develop the licensed program. Without exclusivity, it is likely that no one licensee would expend the resources necessary to fully develop the program. . . . Plaintiff itself utilizes exclusive licenses similar to those attacked herein. The exclusive licenses used herein promote competition by maximizing the number of available programs and preventing audience fragmentation for a program. . . .

This exclusivity also promotes competition by maximizing the program’s value and avoiding overexposure, which can shorten the program’s useful life. . . . Exclusivity permits each station to plan programming to compete with another station’s programming, with the knowledge that no other station will dilute the value of this competitive programming by airing the same program at the same time. . . . Exclusive licenses promote competition among suppliers by providing an incentive to maximize the number of programs offered and by maximizing the supplier’s revenues from the licenses . . .

B. Conspiracy Claim Against Station Defendants.

Plaintiff’s second antitrust claim is directed against the station defendants. Plaintiff contends that the station defendants have violated Section 1 of the Sherman Act by a per se horizontal conspiracy to enforce exclusivity against plaintiff. . . .

Plaintiff’s first argument is that the defendants’ parallel conduct permits an inference of conspiracy. Even if plaintiff could show that the defendants’ conduct with respect to exclusivity is parallel, which defendants dispute, such evidence could not, by itself, support plaintiff’s conspiracy claim. . . .

Similarly, plaintiff’s offered proof of an opportunity to conspire, even if ac-

cepted by a fact finder, cannot, even when combined with proof of parallel conduct, support a finding of conspiracy. . . .

In order to go to the jury on its conspiracy claim, plaintiff must submit some sort of proof that the defendants actually conspired—some “conscious commitment to a common scheme”—or other special facts permitting a finding of conspiracy. . . .

Despite extensive discovery, plaintiff offers only one item of evidence to substantiate its claim that the station defendants conspired to enforce exclusivity against it. This one item is telephone calls by KTVU’s Mr. Breen to other stations in the area, in which they discussed exclusivity practices. Defendants do not dispute that these telephone calls occurred. Rather, defendants present convincing and undisputed evidence showing that these calls were made *after* the alleged conspiracy began, on advice of counsel after plaintiff threatened litigation concerning exclusivity, and were undertaken to *discover* the exclusivity practices of other stations in the area. . . . Such overwhelming and uncontested evidence shows that plaintiff’s only item of evidence cannot, as a matter of law, substantiate its conspiracy claim. . . .

In addition to their evidence rebutting plaintiff’s meager evidence of conspiracy, the defendants have submitted overwhelming evidence that their exclusivity practices were undertaken in the exercise of their independent and sound business judgment. . . . This showing, which makes it more likely than not that defendants’ exclusivity practices were the result of independent business judgment, is sufficient to compel summary judgment on plaintiff’s conspiracy claim. . . .

The court is confronted with a situation where the [defendants] made independent decisions concerning exclusivity in the exercise of sound business judgment. Under the circumstances of this case, the court holds that summary judgment for the station defendants is appropriate on plaintiff’s conspiracy claim. . . . Accordingly, the court hereby grants defendants’ motion for summary judgment on plaintiff’s second claim of a horizontal conspiracy.

11.8.3 Piracy: Unlawful Interception and Retransmission of Signals

Piracy has been a major problem for the entertainment industries for the last forty years. In recent years, the illegal duplication of videocassettes has grown enormously. The Napster and MyMP3.com, iCrave TV and DeCSS technologies, discussed in Chapter 12, illustrate the problem of various types of piracy on the Internet. The unauthorized interception of radio signals and their retransmission by a background music service was held to violate Section 605 of the Communications Act and to constitute unfair competition under California Civil Code, Section 3369, subd. 3, in *KMLA Broadcasting Corp. v. Twentieth Century Cigarette Vendors Corp.*, 264 F. Supp. 35 (C.D.Cal. 1967).

The following case illustrates various aspects of unauthorized transmission of television signals.

Home Box Office, Inc. v. Pay TV of Greater New York, Inc., 467 F. Supp. 525 (E.D.N.Y. 1979)

NICKERSON, J.

[HBO, a major distributor of cable programming, sought a temporary injunction to prevent defendant from intercepting its signal and transmitting it to the cus-

tomers of defendant's multipoint distribution system (MDS) following the collapse of negotiations toward a licensing agreement. Defendant, which had previously been authorized to retransmit HBO's signal in several areas, had refused to stop doing so after negotiations ended.] . . . Viewing the facts stated in the affidavits in the light most favorable to defendant, the court concludes that a preliminary injunction should issue. . . .

Defendant is continuing to retransmit plaintiff's service to some 8000 customers and has been receiving approximately \$75,000 a month in subscription fees, none of which has been paid to plaintiff. Defendant says it will pay plaintiff but only if granted exclusive rights in Kings and Bronx Counties.

Defendant claims that from the first, although plaintiff encouraged defendant to make expenditures for equipment and manpower, plaintiff's true intent was to use defendant merely as an inexpensive way of testing the market until plaintiff could bring a subsidiary into the business, and that plaintiff in violation of the Sherman Act conspired with the counterclaim defendants to that end.

In moving for a temporary injunction plaintiff asserts rights under Section 605 of the Communications Act of 1934, the copyright laws, Section 165.15(4) of the New York Penal Law, and the New York common law of unfair competition.

Section 605, 47 U.S.C., prohibits any person not entitled to intercept or receive radio communications from doing so and from using "such communication (or any information therein contained) for his own benefit or for the benefit of another not entitled thereto." By its terms the section does not apply to the receiving and using of the contents of any communication which is broadcast "for the use of the general public." "Radio communication" is defined by Section 153(b) to include "the transmission by radio of . . . signals, pictures, and sounds of all kinds."

Defendant does not deny that Section 605 prohibits an unauthorized person from intercepting the signals carrying plaintiff's program service. The wording of the section proscribes the interception and use of such signals not intended for broadcast to "the general public." . . .

Here the multipoint distribution service station operates on microwave radio frequencies of such height that the signal is not receivable by conventional television sets until it is modulated by special equipment. The programs are thus intended to be received not by "the general public" but only by paying subscribers. *Cf. Cable Vision, Inc. v. KUTV, Inc.*, 335 F.2d 348 (9th Cir. 1964).

The Federal Communications Commission has concluded that the unauthorized interception of television signals from such a multipoint distribution service violates Section 605. Public Notice dated January 24, 1979. No court appears heretofore to have had occasion to apply the section to television transmissions. But *KMLA Broadcast Corp. v. Twentieth Century Cig. Vend. Corp.*, 264 F. Supp. 35 (C.D.Cal.1967), relied upon it in enjoining a manufacturer of equipment which intercepted and broadcast multiplex radio transmissions capable of receipt only by special equipment and licensed to a limited audience. There is no reason why the result should be different in the case of television transmissions.

While raising no question as to the applicability of Section 605, defendant contends that plaintiff has consented to defendant's interception of the signal, is guilty of laches in seeking temporary relief, and in any event is sustaining no "irreparable" damage and should therefore be left to a remedy in money damages.

Giving the widest possible latitude to the statements made in defendant's opposing affidavit there is no basis for finding a consent. Defendant admits that the

parties conducted negotiations commencing in December 1975 looking toward the execution of a written agreement and that no such agreement was ever concluded. Defendant's consistent negotiating position was that it would sign up only if it got exclusive rights, and plaintiff admittedly refused to accede.

Now defendant claims that it always had the right to use the program service which it unsuccessfully negotiated for so long to obtain. Defendant says that as early as June and September 1975, before it entered into the October 21, 1975 agreement with Microband, plaintiff orally induced defendant to get into the business on the representation that plaintiff would grant defendant exclusive rights in Kings and Bronx Counties. This contention is hardly consistent with defendant's later entry into the written agreement with Microband. That agreement gave defendant no rights in any area other than Queens County, and there the rights were "non-exclusive."

But taking defendant's affidavit at face value it at best makes out a representation, but nowhere shows that plaintiff entered into a license agreement with defendant. Nothing is stated as to the duration of any such agreement or indeed as to any of its terms beyond the exclusivity feature. Whether or not plaintiff acquiesced in defendant's use of the service prior to August 18, 1978, plainly plaintiff has not done so since that date. . . .

If defendant can establish at trial that as a result of plaintiff's asserted false representations defendant changed its position it may perhaps be entitled to money damages. But on the papers presented defendant has failed to show a consent by plaintiff to defendant's continued use of the program service.

Despite the clarity of plaintiff's rights under Section 605 and the avowed intention of defendant to continue as in the past, defendant contends that plaintiff has failed to establish the requisite degree of harm to entitle it to preliminary relief and that damages at the close of the case are an adequate remedy. . . .

But where, as here, a defendant shows no justification for continuing to violate a plaintiff's clear statutory rights, there is no reason to withhold preliminary relief even without a showing of the same quantum of "irreparable" damage as would be required where plaintiff's ultimate success was more doubtful. Defendant has had every opportunity to advance whatever facts would support its contention that plaintiff orally consented to the use of the program service, and those facts must be within the knowledge of defendant. On the papers presented defendant has no right to intercept and use plaintiff's program service. If on all those papers plaintiff had moved for summary judgment for a permanent injunction, the court would have been obliged to grant the motion.

Defendant claims that it will be irreparably damaged by the issuance of a preliminary injunction because it will be put out of business. But in determining whether to grant relief the court may consider only harm to defendant's legal rights. Any damages which the temporary injunction inflicts on defendant is occasioned not by the preliminary nature of the decision but by Section 605 of the Act. The only business of defendant which will be prohibited is the unauthorized use of something to which it has no fair claim.

Even if plaintiff were required to make a showing of irreparable injury in more traditional terms, it has done so. While the amount plaintiff is losing in fees can probably be estimated and awarded as damages, the injury to plaintiff's reputation and the interference with its business are not so readily repaired. Plaintiff plausibly claims that its present lack of control over the locations and customers being served by defendant and defendant's representation of the pirated service

as its own are damaging plaintiff's name and jeopardizing its expansion plans. A judgment for damages is hardly adequate to compensate for these. . . .

The court's decision as to plaintiff's rights under Section 605 makes it unnecessary to consider the other grounds for relief advanced by plaintiff.

Conceivably defendant may be able to offer testimony at trial showing facts different from or in addition to those set forth in defendant's affidavit. Of course testimony relating to plaintiff's alleged violations of the Sherman Act would be irrelevant to whether an injunction should issue. . . . The remedies for any such violations are set forth in the antitrust laws and do not include allowing the continued appropriation of plaintiff's program service. . . .

NOTES

1. A similar result was reached in *Orth-O-Vision, Inc. v. Home Box Office, Inc.*, 474 F. Supp. 672 (S.D.N.Y. 1979).

2. On the other hand, there is no infringement of a baseball team's copyright in broadcasts of its games where an FCC-licensed common carrier retransmits the team's authorized local broadcast station's signal to distant cable systems for dissemination to the recipient systems' respective audiences under applicable compulsory licensing legislation, *Eastern Microwave, Inc. v. Doubleday Sport, Inc.*, 691 F.2d 125 (2d Cir. 1982) *cert. denied*, 459 U.S. 1226 (1983). The retransmitter was held to be a passive carrier under 17 U.S.C. 111(a)(3) of the Copyright Act of 1976 (Act).

THE INTERNET, MULTIMEDIA, AND EMERGING TECHNOLOGIES

12.1 INTRODUCTION

The main themes of this book find their most poignant expression in the newest—and most rapidly expanding—entertainment industries, the Internet and multimedia technologies. Over 100 million Americans used the Internet in 1999, and the number continues to grow as bandwidth increases and digital subscriber lines become available more widely. The low cost and ease of operation of stripped-down interactive set-top devices such as WebTV and Sony's PlayStation2 (which, at a price of \$370, "has the capacity to be a conduit for family movies, video games, music, e-commerce, Web surfing, word processing and e-mail" [Mark Magnier, "PlayStation2 Is Not Just Fun and Games," *Los Angeles Times*, March 4, 2000, p. 1]) make Internet access easier and more affordable to a greater proportion of the population. U.S. Internet retail sales exceeded \$5 billion for the fourth quarter of 1999. According to the market research firm International Data Corporation, "the number of Internet and online service users will be over 200 million in five years and surpass 1 billion by the year 2010. IDC expects online sales of goods and services to exceed . . . \$1 trillion by 2010" (Kent D. Stuckey, *Internet and Online Law* [New York: Law Journal Press, 1999, p. ix]). Video games are already big business: In 1998, retail sales of video games were nearly equal to theatrical film box office revenues and home video sales and rentals *combined*.

In the case of the Internet, globalization is a given (and, given the ease of access and difficulty of identifying pirates, the worst piracy threat); the costs of doing business are escalating, as is evidenced by the number of online enterprises that regularly report dramatically increased quarterly sales—accompanied by exponentially higher losses; and consolidation is occurring as the proliferation of websites creates counterproductive "white noise" which, in turn, impels many "e-tailers" and other "dotcoms" to seek the protection of recognized brand names. A prime example of this tendency is the 2001 merger of AOL and Time Warner Inc., and the joint venture (at this time of this writing, pending) by the record

and music publishing operations of German multinational Bertelsmann and English multinational EMI. By the same token, the “majors” have sought to gain the cutting edge by developing their own online strategies (*e.g.*, Universal Music Group’s March 2000 announcement of its own digital distribution system, developed in conjunction with AT&T, BMG Entertainment, and Matsushita Electric Industrial Co. and Sony/Vivendi “Duet” system announced in February 2001) and by investing in young, aggressive, Internet-focused companies (many of which, unfortunately, have not thrived). At the same time, maverick operations such as MP3.com and Napster (both involved in litigation discussed below) provided consumers with the ability to obtain music downloads free of charge. In the case of Napster, the demand has been so great that a large number of universities have banned Napster (as well as iMesh, a similar program that permits the downloading of movies) from their websites; undeterred, the creator of Napster announced that the program would be modified to prevent universities and/or others from limiting access (but this, too, may be in doubt).

The Internet also presents issues of security, over and apart from the threat presented by Napster, MP3.com, and similar challengers. An unidentified (as of this writing) hacker, presumed to be located somewhere in Eastern Europe, threatened to release hundreds of thousands of consumer credit files maintained by e-tailer CD Universe, Inc., and did, in fact, release some 100,000 of these files when CD Universe refused to pay the ransom. The February 2000 DOS (denial of service) attacks on Yahoo, Amazon.com, eBay, CNN.com, Etrade, and Excite (among others) was remarkable for a number of reasons, one of which was “how much the hackers had done with so little. The kind of software used for the attack [was] practically public property” (Chris Taylor, “Behind the Hack Attack,” *Time*, February 21, 2000, p. 45).

Issues have already been raised regarding the degree to which pre-Internet grants of rights are sufficiently broad to permit those who acquired the rights to exercise them in the new medium. For example, in *Tasini v. The New York Times, Co.*, Sec. 7.4, above, a group of freelance journalists convinced the Second Circuit that their contracts with various newspapers and magazines did not permit the latter to put the writers’ articles up piecemeal on the media’s websites where they could be accessed individually rather than as part of the editions in which the articles had originally appeared. An action on behalf of recording artists who recorded many years ago, challenging the right of their record companies to exploit their recordings via the Internet, was dismissed on the basis of broad contractual grants of rights. *Chambers v. Time Warner, Inc.*, 123 F. Supp. 2d 198, 57 U.S.P.Q. 2d 1314 (S.D.N.Y. 2000). The action was filed shortly after the commencement of the *Napster* action.

As we see in the *Bensusan* and *Zippo* decisions that follow, jurisdiction within the United States has been addressed on numerous occasions, and a substantial body of case law has already been established. In addition, at least one case, *MecklerMedia Corp. DC Congress GmbH*, High Court (Chancery) (U.K.), March 7, 1997, Ch. 40 [1998] All. E.R. 148 [1997] F.S.R. 627, has upheld jurisdiction in the United Kingdom based on acts in Germany. But what law controls when a French citizen downloads a recording from a website based in the United States? Or vice versa? If one music publisher has the rights to a song in the United States and Canada but another publisher has the rights for Europe (a common occurrence), which publisher is entitled to issue (and collect for) the

mechanical reproduction license? As of this writing, there is a great deal of discussion going on about these issues, but no resolutions are in sight.

The continuing push for censorship (which we saw in Section 5.3.3) is evident in the online world as well, as we see in Section 12.3. Because of legislators' concern about the ease of access available to minors, there already have been a number of attempts to limit Internet content. However, as we see in the discussions of the cases that have been decided so far, no definitive resolution has been achieved in this area.

One area that has been the source of considerable contention is the extent to which Internet Service Providers (ISPs) can be held liable for defamation, copyright infringement, trademark infringement, or other torts committed by those who avail themselves of ISPs' facilities. *Zeran v. America Online* (Section 12.4) is consistent with cases such as *Lerman v. Flynt Distributing Co.* (Section 3.3.3), as is the protection provided by section 202 of the Digital Millennium Copyright Act (Section 12.5.1).

But the Internet provides its own unique challenges. MP3 technology, for example, does not fit neatly into pre-existing legislative pigeonholes, as we see in *RIAA v. Diamond Multimedia Systems, Inc.* (Section 12.5.2), in which the Ninth Circuit held that the DiamondRio portable player was not only not an infringement of copyright, but it didn't even constitute a digital recording device under the Audio Home Recording Act of 1992. Unauthorized hyperlinks via framing can bring liability with them, as we see in Section 12.3.2 and the decision in *Brookfield Communications, Inc. v. West Coast Entertainment Corp.* (Section 12.6.1).

Finally, what of contracts entered into over the Internet? These, after all, are the key to e-commerce. As we see in the section of Rob Hassett and Suellen Bergman's article reproduced in Section 12.7, the concept of the "click-wrap" agreement is alive and well, but must be dealt with cautiously. Meridian Research has estimated that up to 10 percent of all Internet credit card transactions in the U.S. and Western Europe are fraudulent, and that number will approach 14 percent by 2003 (*The Internet Newsletter*, January 2000, p. 9). This trend presents e-tailers with a problem their "brick & mortar" counterparts do not face: When a transaction is CNP (credit card lingo for "card not present," which is always the case when a transaction occurs on the Internet), the merchant takes the risk that the merchant has been defrauded by the customer. In the traditional retailing world, by contrast, the risk of loss in such a situation falls on the credit card company.

NOTES

1. Several treaties are available in this area, all of which are in looseleaf format and are supplemented on a regular basis.

(a) Richard Raysman, Peter Brown, and Jeffrey Neuburger, *Multimedia Law: Forms and Analysis* (New York: Law Journal-Seminars Press, 1998)

(b) Michael D. Scott, *Multimedia: Law and Practice* (Englewood Cliffs, NJ: Aspen Law & Business, 1993)

(c) Kent D. Stuckey, *Internet and Online Law* (New York: Law Journal Press 1996)

2. The *Computer and Internet Lawyer* is published by Aspen Law & Business, 7201 McKinney Circle, Frederick, MD 21704. 1-800-638-8437.

3. The *Internet Newsletter* is published monthly by Law Journal Newsletters, 345 Park Avenue South, New York, NY 10010 (circ@amlaw.com).

4. The report of the Committee on Intellectual Property Rights and the Emerging Information Infrastructure, entitled *The Digital Dilemma*, was published by the National Academy Press (Washington, D.C.) in February 2000.

12.2 PERSONAL JURISDICTION

Traditionally, in order for a court to exercise personal jurisdiction over a non-resident defendant, the court must ascertain whether the defendant's contacts with the forum state satisfy the requirements of the state's long-arm statute. Additionally, the court must determine whether exercising jurisdiction over the defendant would satisfy traditional notions of "fair play and substantial justice."

With the increased use of the Internet, courts are frequently confronted with the issue of whether the businesses and individuals are subject to personal jurisdiction wherever their website may be accessed. As the Internet quickly becomes an important commercial marketing tool, courts have attempted to apply the traditional analyses to this emerging technology. As the following cases will demonstrate, a court's decision to exercise personal jurisdiction over a defendant depends on how interactive the defendant's website is. Furthermore, the courts are more likely to find personal jurisdiction if the defendant has made a sufficient number of non-Internet contacts with the forum state.

**Bensusan Restaurant Corp. v. King, 937 F. Supp. 295 (S.D.N.Y. 1996),
aff'd 126 F.3d 25 (2d Cir. 1997)**

STEIN, DISTRICT JUDGE

Plaintiff Bensusan Restaurant Corp. ("Bensusan") brought this action against defendant Richard King, individually and doing business as The Blue Note, alleging that King is infringing on Bensusan's rights in its trademark "The Blue Note." King has moved to dismiss the complaint for lack of personal jurisdiction pursuant to Fed.R.Civ.P. 12(b)(2). The issue raised by that motion is whether the existence of a "site" on the World Wide Web of the Internet, without anything more, is sufficient to vest this Court with personal jurisdiction over defendant pursuant to New York's long-arm statute and the Due Process Clause of the United States Constitution. For the reasons that follow, the motion to dismiss the complaint is granted.

I. Background

Bensusan, a New York corporation, is the creator of a jazz club in New York City known as "The Blue Note." It also operates other jazz clubs around the world. Bensusan owns all right, title and interest in and to the federally registered mark "The Blue Note." King is an individual who lives in Columbia, Missouri and he owns and operates a "small club" in that city which is also called "The Blue Note."

In April of 1996, King posted a "site" on the World Wide Web of the Internet to promote his club. . . . This Web site, which is located on a computer server in Missouri, allegedly contains "a fanciful logo which is substantially similar to the logo utilized by [Bensusan]." The Web site is a general access site, which means that it requires no authentication or access code for entry, and is accessible to anyone around the world who has access to the Internet. It contains general information about the club in Missouri as well as a calendar of events and tick-

eting information. The ticketing information includes the names and addresses of ticket outlets in Columbia and a telephone number for charge-by-phone ticket orders, which are available for pick-up on the night of the show at the Blue Note box office in Columbia.

At the time this action was brought, the first page of the Web site contained the following disclaimer: “The Blue Note’s Cyberspot should not be confused with one of the world’s finest jazz club[s] [the] Blue Note, located in the heart of New York’s Greenwich Village. If you should find yourself in the big apple give them a visit.” Furthermore, the reference to Bensusan’s club in the disclaimer contained a “hyperlink”^{*} which permits Internet users to connect directly to Bensusan’s Web site by “clicking” on the link. After Bensusan objected to the Web site, King dropped the sentence “If you should find yourself in the big apple give them a visit” from the disclaimer and removed the hyperlink.

Bensusan brought this action asserting claims for trademark infringement, trademark dilution and unfair competition. King has now moved to dismiss the action for lack of personal jurisdiction pursuant to Fed.R.Civ.P. 12(b)(2).

II. Discussion

... Knowing that personal jurisdiction over a defendant is measured by the law of the jurisdiction in which the federal court sits, Bensusan relies on subdivisions (a)(2) and (a)(3)(ii) of N.Y.C.P.L.R. 302, New York’s long-arm statute, to support its position that personal jurisdiction exists over King in this action. Each provision will be addressed in turn.

A. C.P.L.R. 302(A)(2)

C.P.L.R. 302(a)(2) permits a court to exercise personal jurisdiction over any non-domiciliary who “commits a tortious act within the state” as long as the cause of action asserted arises from the tortious act [citations omitted].

In *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 639 (2d Cir.), cert. denied, 352 U.S. 871, 77 S.Ct. 96, 1 L.Ed.2d 76 (1956), the United States Court of Appeals for the Second Circuit held that trademark infringement occurs “where the passing off occurs, i.e., where the deceived customer buys the defendant’s product in the belief that he is buying the plaintiff’s.” Under this standard, courts have found that an offering for sale of even one copy of an infringing product in New York, even if no sale results, is sufficient to vest a court with jurisdiction over the alleged infringer. See *Editorial Musical Latino Americana*, 829 F. Supp. at 64–65; *German Educational Television Network, Ltd. v. Oregon Public Broadcasting Co.*, 569 F. Supp. 1529 (S.D.N.Y. 1983); [other citations omitted]. Accordingly, the issue that arises in this action is whether the creation of a Web site, which exists either in Missouri or in cyberspace—i.e., anywhere the Internet exists—with a telephone number to order the allegedly infringing product, is an offer to sell the product in New York.

Even after construing all allegations in the light most favorable to Bensusan, its allegations are insufficient to support a finding of long-arm jurisdiction over

^{*}A “hyperlink” is “highlighted text or images that, when selected by the user, permit him to view another, related Web document.” *Shea*, 930 F. Supp. at 929. With these links “a user can move seamlessly between documents, regardless of their location; when a user viewing the document located on one server selects a link to a document located elsewhere, the browser will automatically contact the second server and display the document.” *Id.*

plaintiff. A New York resident with Internet access and either knowledge of King's Web site location or a "search engine" capable of finding it could gain access to the Web site and view information concerning the Blue Note in Missouri.

It takes several affirmative steps by the New York resident, however, to obtain access to the Web site and utilize the information there. First, the New York resident has to access the Web site using his or her computer hardware and software. See *Shea*, 930 F. Supp. at 930. Then, if the user wished to attend a show in defendant's club, he or she would have to telephone the box office in Missouri and reserve tickets. Finally, that user would need to pick up the tickets in Missouri because King does not mail or otherwise transmit tickets to the user. Even assuming that the user was confused about the relationship of the Missouri club to the one in New York, such an act of infringement would have occurred in Missouri, not New York. The mere fact that a person can gain information on the allegedly infringing product is not the equivalent of a person advertising, promoting, selling or otherwise making an effort to target its product in New York. See *Hertz*, 549 F. Supp. at 797. Here, there is simply no allegation or proof that any infringing goods were shipped into New York or that any other infringing activity was directed at New York or caused by King to occur here. Cf. *People v. Concert Connection, Ltd.*, 211 A.D.2d. 310, 314, 629 N.Y.S.2d 254, 257 (2d Dep't. 1995), *appeal dismissed*, 86 N.Y.2d 837, 634 N.Y.S.2d 445, 658 N.E.2d 223 (1995) (Table).

According, C.P.L.R. 302(a)(2) does not authorize this Court to exercise jurisdiction over King.

B. C.P.L.R. 302(a)(3)(ii)

Bensusan also contends that personal jurisdiction is established pursuant to C.P.L.R. 302(a)(3)(ii), which permits a court to exercise personal jurisdiction over any non-domiciliary for tortious acts committed outside the state that cause injury in the state if the non-domiciliary "expects or should reasonably expect the act to have consequences in the state and derives substantial revenue from interstate or international commerce." See *American Eutectic Welding Alloys Sales Co. v. Dytron Alloys Corp.*, 439 F.2d 428, 432-35 (2d Cir. 1971) [other citations omitted].

As an initial matter, Bensusan does not allege that King derives substantial revenue from interstate or international commerce. Instead, it relies on arguments that King participates in interstate commerce by hiring and showcasing bands of national stature. Section 302(a)(3)(ii), however, explicitly states that substantial "revenue" is required from interstate commerce, not mere participation in it. King has submitted an affidavit stating that 99% of his patronage and revenue is derived from local residents of Columbia, Missouri (primarily students from the University of Missouri) and that most of the few out-of-state customers have either an existing or a prior connection to the area, such as graduates of the University of Missouri.

Moreover, Bensusan's allegations of foreseeability, which are based solely on the fact that King knew that Bensusan's club is located in New York, is insufficient to satisfy the requirement that a defendant "expects or should reasonably expect the act to have consequences in the state." That prong of the statute requires that a defendant make "a discernable effort . . . to serve, directly or in-

directly, a market in the forum state.” *Dariento v. Wise Shoe Stores, Inc.*, 74 A.D.2d 342, 346, 427 N.Y.S.2d 831, 834 (2d Dep’t. 1980).

Finally, Bensusan’s conclusory allegation of a loss in New York is nothing more than an allegation of an “indirect financial loss resulting from the fact that the injured person resides or is domiciled in New York,” which is not the allegation of a “significant economic injury” required by section 302(a)(3) [citations omitted].

Accordingly, C.P.L.R. 302(a)(3) does not authorize this Court to exercise jurisdiction over King.

Bensusan’s primary argument in support of both statutory bases for personal jurisdiction is that, because defendant’s Web site is accessible in New York, defendant could have foreseen that the site was able to be viewed in New York and taken steps to restrict access to his site only to users in a certain geographic region, presumably Missouri. Regardless of the technical feasibility of such a procedure, see *Shea*, 930 F. Supp. at 929–30, 933–34, mere foreseeability of an in-state consequence and a failure to avert that consequence is not sufficient to establish personal jurisdiction. See *Fox v. Boucher*, 794 F.2d 34, 37 (2d Cir. 1986); *Taurus Int’l Inc. v. Titan Wheel Int’l Inc.*, 892 F. Supp. 79, 82 (S.D.N.Y. 1995).

C. Due Process

Furthermore, even if jurisdiction were proper under New York’s long-arm statute, asserting personal jurisdiction over King in this forum would violate the Due Process Clause of the United States Constitution. See, e.g., *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475–76, 105 S.Ct. 2174, 2183–84, 85 L.Ed.2d 528 (1985); *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292, 100 S.Ct. 559, 564, 62 L.Ed.2d 4980 (1980); see also Richard S. Zembek, Comment, Jurisdiction and the Internet: Fundamental Fairness in the Networked World of Cyberspace, 6 Alb.L.J.Sci. & Tech. 339, 367–80 (1996). Due process requires “that the non-resident defendant has purposefully established ‘minimum contact’ with the forum state such that the ‘maintenance of the suit does not offend ‘traditional notions of fair play and substantial justice’ ” *Darby v. Compagnie Nationale Air France*, 769 F. Supp. 1255, 1262 (S.D.N.Y. 1991) (quoting *International Shoe Co. v. Washington*, 326 U.S. 310, 316, 66 S.Ct. 154, 158, 90 L.Ed. 95 (1945)).

The following factors are relevant to this determination: “(1) whether the defendant purposefully availed himself of the benefits of the forum state; (2) whether the defendant’s conduct and connection with the forum state are such that he should reasonably anticipate being hauled into court there; and (3) whether the defendant carries on a continuous and systematic part of its general business within the forum state.” *Independent Nat’l Distributors, Inc. v. Black Rain Communications, Inc.*, No. 94 Civ. 8464, 1995 WL 571449, at *5–6 (S.D.N.Y. Sept. 28, 1995).

As set forth above, King has done nothing to purposefully avail himself of the benefits of New York. King, like numerous others, simply created a Web site and permitted anyone who could find it to access it. Creating a site, like placing a product into the stream of commerce, may be felt nationwide—or even worldwide—but, without more, it is not an act purposefully directed toward the forum state. See *Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102, 112, 107 S.Ct. 1026, 1032, 94 L.Ed.2d 92 (1992) (plurality opinion). There are no allegations that King actively sought to encourage New Yorkers to access his site, or that

he conducted any business—let alone a continuous and systematic part of its business—in New York. There is in fact no suggestion that King has any presence of any kind in New York other than the Web site that can be accessed worldwide. Bensusan’s argument that King should have foreseen that users could access the site in New York and be confused as to the relationship of the two Blue Note clubs is insufficient to satisfy due process. See *Fox*, 794 F.2d at 37; *Beckett v. Prudential Ins. Co. of Am.*, 893 F. Supp. 234, 239 (S.D.N.Y. 1995).

Although *CompuServe Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996), a recent decision of the United States Court of Appeals for the Sixth Circuit, reached a different result, it was based on vastly different facts. In that case, the Sixth Circuit found personal jurisdiction proper in Ohio over an Internet user from Texas who subscribed to a network service based in Ohio. The user, however, specifically targeted Ohio by subscribing to the service and entering into a separate agreement with the service to sell his software over the Internet. Furthermore, he advised his software through the service and repeatedly sent his software to the service in Ohio. *Id.* at 1264–65. This led that court to conclude that the Internet user “reached out” from Texas to Ohio and “originated and maintained” contacts with Ohio. *Id.* at 1266.* This action, on the other hand, contains no allegations that King in any way directed any contact to, or had any contact with, New York or intended to avail itself of any of New York’s benefits.

Accordingly, the exercise of personal jurisdiction over King in this case would violate the protections of the Due Process Clause.

III. Conclusion

For the reasons set forth above, defendant’s motion to dismiss the complaint pursuant to Fed.R.Civ.P. 12(b)(2) for lack of personal jurisdiction is granted and the complaint is dismissed.

Zippo Manufacturing Co. v. Zippo Dot Com, Inc. 952 F. Supp. 1119 (W.D. Pa. 1997).

MCLAUGHLIN, DISTRICT JUDGE

This is an Internet domain name† dispute. At this stage of the controversy, we must decide the Constitutionally permissible reach of Pennsylvania’s Long Arm Statute, 42 Pa.C.S.A. 5322, through cyberspace. Plaintiff Zippo Manufacturing Corporation (“Manufacturing”) has filed a five count complaint against Zippo Dot Com, Inc. (“Dot Com”) alleging trademark dilution, infringement, and false designation under the Federal Trademark Act, 15 U.S.C. 1051–1127. In addition, the Complaint alleges causes of action based on state law trademark dilution under 54 Pa.C.S.A. 1124, and seeks equitable accounting and imposition of a constructive trust. Dot Com has moved to dismiss for lack of personal jurisdiction and improper venue pursuant to Fed.R.Civ.P. 12(b)(2) and (3) or, in the alter-

*In *CompuServe*, the Sixth Circuit explicitly wrote that it was not addressing the issue of whether the Internet user “would be subject to suit in any state where his software was purchased or used. . . .” *CompuServe*, 89 F.3d at 1268.

†Domain names serve as a primary identifier of an Internet user. *Panavision Intern., v. L.P. Toepfen*, 938 F. Supp. 616 (C.D.Cal.1996). Businesses using the Internet commonly use their business names as part of the domain name (e.g. IBM.com). The designation “.com” identifies the user as a commercial entity. *Id.*

native, to transfer the case pursuant to 28 U.S.C. 1406(a). For the reasons set forth below, Defendant's motion is denied.

I. Background

The facts relevant to this motion are as follows. Manufacturing is a Pennsylvania corporation with its principal place of business in Bradford, Pennsylvania. Manufacturing makes, among other things, well-known "Zippo" tobacco lighters. Dot Com is a California corporation with its principal place of business in Sunnyvale, California. Dot Com operates an Internet Web site and an Internet news service and has obtained the exclusive right to use the domain names "zippo.com", "zippo.net" and "zipponews.com" on the Internet.

Dot Com's Web site contains information about the company, advertisements and an application for its Internet news service. The news service itself consists of three levels of membership—public/free, "Original" and "Super." Each successive level offers access to a greater number of Internet newsgroups. A customer who wants to subscribe to either the "Original" or "Super" level of service, fills out an on-line application that asks for a variety of information including the person's name and address. Payment is made by credit card over the Internet or the telephone. The application is then processed and the subscriber is assigned a password which permits the subscriber to view and/or download Internet newsgroup messages that are stored on the Defendant's server in California.

Dot Com's contacts with Pennsylvania have occurred almost exclusively over the Internet. Dot Com's offices, employees and Internet servers are located in California. Dot Com maintains no offices, employees or agents in Pennsylvania. Dot Com's advertising for its service to Pennsylvania residents involves posting information about its service on its Web page, which is accessible to Pennsylvania residents via the Internet. Defendant has approximately 140,000 paying subscribers worldwide. Approximately two percent (3,000) of those subscribers are Pennsylvania residents. These subscribers have contracted to receive Dot Com's service by visiting its Web site and filling out the application. Additionally, Dot Com has entered into agreements with seven Internet access providers in Pennsylvania to permit their subscribers to access Dot Com's news service. Two of these providers are located in the Western District of Pennsylvania.

The basis of the trademark claims is Dot Com's use of the word "Zippo" in the domain names it holds, in numerous locations in its Web site and in the heading of Internet newsgroup messages that have been posted by Dot Com subscribers. When an Internet user views or downloads a newsgroup message posted by a Dot Com subscriber, the word "Zippo" appears in the "Message-Id" and "Organization" sections of the heading. The news message itself, containing text and/or pictures, follows. Manufacturing points out that some of the messages contain adult oriented, sexually explicit subject matter.

[II]. Discussion

A. Personal Jurisdiction

1. The Traditional Framework

Our authority to exercise personal jurisdiction in this case is conferred by state law. Fed.R.Div.P. 4(e); *Mellon*, 960 F.2d at 1221. The extent to which we may exercise that authority is governed by the Due Process Clause of the Fourteenth

Amendment to the Federal Constitution. *Kulko v. Superior Court of California*, 436 U.S. 84, 91, 98 S.Ct. 1690, 1696, 56 L.Ed.2d 132 (1978).

Pennsylvania's long arm jurisdiction statute is codified at 42 Pa.C.S.A. 5322(a). The portion of the statute authorizing us to exercise jurisdiction here permits the exercise of jurisdiction over non-resident defendants upon:

(2) Contracting to supply services or things in this Commonwealth.

42 Pa.C.S.A. 5322(a). It is undisputed that Dot Com contracted to supply Internet news services to approximately 3,000 Pennsylvania residents and also entered into agreements with seven Internet access providers in Pennsylvania. Moreover, even if Dot Com's conduct did not satisfy a specific provision of the statute, we would nevertheless be authorized to exercise jurisdiction to the "full-est extent allowed under the Constitution of the United States." 42 Pa.C.S.A. 5322(b).

The Constitutional limitations on the exercise of personal jurisdiction differ depending upon whether a court seeks to exercise general or specific jurisdiction over a non-resident defendant. *Mellon*, 960 F.2d at 1221. General jurisdiction permits a court to exercise personal jurisdiction over a non-resident defendant for non-forum related activities when the defendant has engaged in "systematic and continuous" activities in the forum state. *Helicopteros Nacionales de Colombia, v. S.A. Hall*, 466 U.S. 408, 414–16, 104 S.Ct. 1868, 1872–73, 80 L.Ed.2d 404 (1984). In the absence of general jurisdiction, specific jurisdiction permits a court to exercise personal jurisdiction over a non-resident defendant for forum-related activities where the "relationship between the defendant and the forum falls within the 'minimum contacts' framework" of *International Shoe Co. v. Washington*, 326 U.S. 310, 66 S.Ct. 154, 90 L.Ed. 95 (1945) and its progeny. *Mellon*, 960 F.2d at 1221. Manufacturing does not contend that we should exercise general personal jurisdiction over Dot Com. Manufacturing concedes that if personal jurisdiction exists in this case, it must be specific. . . .

2. The Internet and Jurisdiction

In *Hanson v. Denckla*, the Supreme Court noted that "[a]s technological progress has increased the flow of commerce between States, the need for jurisdiction has undergone a similar increase." *Hanson v. Denckla*, 357 U.S. 235, 250–51, 78 S.Ct. 1228, 1237–39, 2 L.Ed.2d 1283 (1958). Twenty-seven years later, the Court observed that jurisdiction could not be avoided "merely because the defendant did not physically enter the forum state." *Burger King*, 471 U.S. at 476, 105 S.Ct. at 2184. The Court observed that:

[I]t is an inescapable fact of modern commercial life that a substantial amount of commercial business is transacted solely by mail and wire communications across state lines, thus obviating the need for physical presence within a State in which business is conducted. *Id.*

Enter the Internet, a global "'super-network' of over 15,000 computer networks used by over 30 million individuals, corporations, organizations, and educational institutions worldwide" *Panavision Intern., L.P. v. Toeppen*, 938 F. Supp. 616 (C.D.Cal. 1996) (citing *American Civil Liberties Union v. Reno*, 929 F. Supp. 824, 830–48 (E.D.Pa. 1996)). "In recent years, businesses have begun to use the Internet to provide information and products to consumers and other businesses." *Id.* The Internet makes it possible to conduct business throughout

the world entirely from a desktop. With this global revolution looming on the horizon, the development of the law concerning the permissible scope of personal jurisdiction based on Internet use is in its infant stages. The cases are scant. Nevertheless, our review of the available cases and materials . . . reveals that the likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet. This sliding scale is consistent with well-developed personal jurisdiction principles. At one end of the spectrum are situations where a defendant clearly does business over the Internet. If the defendant enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet, personal jurisdiction is proper. E.g., *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996). At the opposite end are situations where a defendant has simply posted information on an Internet Web site which is accessible to users in foreign jurisdictions. A passive Web site that does little more than make information available to those who are interested in it is not grounds for the exercise [of] personal jurisdiction. E.g., *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295 (S.D.N.Y. 1996). The middle ground is occupied by interactive Web sites where a user can exchange information with the host computer. In these cases, the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the Web site. E.g., *Martiz, Inc. v. Cybergold, Inc.*, 947 F. Supp. 1328 (E.D.Mo. 1996).

Traditionally, when an entity intentionally reaches beyond its boundaries to conduct business with foreign residents, the exercise of specific jurisdiction is proper. *Burger King [v. Rudzewicz]*, 471 U.S. at 475, 105 S.Ct. at 2183–84. Different results should not be reached simply because business is conducted over the Internet. In *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996), the Sixth Circuit addressed the significance of doing business over the Internet. In that case, Patterson, a Texas resident, entered into a contract to distribute shareware* through CompuServe’s Internet server located in Ohio. *CompuServe*, 89 F.3d at 1260. From Texas, Patterson electronically uploaded thirty-two master software files to CompuServe’s server in Ohio via the Internet. *Id.* at 1261. One of Patterson’s software products was designed to help people navigate the Internet. *Id.* When CompuServe later began to market a product that Patterson believed to be similar to his own, he threatened to sue. *Id.* CompuServe brought an action in the Southern District of Ohio, seeking a declaratory judgment. *Id.* The District Court granted Patterson’s motion to dismiss for lack of personal jurisdiction and CompuServe appealed. *Id.* The Sixth Circuit reversed, reasoning that Patterson had purposefully directed his business activities toward Ohio by knowingly entering into a contract with an Ohio resident and then “deliberately and repeatedly” transmitted files to Ohio. *Id.* at 1264–66.
[The Court then proceeded to summarize the *Bensusan* case]

3. Application to this Case

First, we note that this is not an Internet advertising case in the line of *Inset Systems* and *Bensusan*, *supra*. Dot Com has not just posted information on a Web site that is accessible to Pennsylvania residents who are connected to the Inter-

*“Shareware” is software which a user is permitted to download and use for a trial period, after which the user is asked to pay a fee to the author for continued use. *CompuServe*, 89 F.3d at 1260.

net. This is not even an interactivity case in the line of *Maritz, supra*. Dot Com has done more than create an interactive Web site through which it exchanges information with Pennsylvania residents in hopes of using that information for commercial gain later. . . . We are being asked to determine whether Dot Com's conducting of electronic commerce with Pennsylvania residents constitutes the purposeful availment of doing business in Pennsylvania. We conclude that it does. Dot Com has contracted with approximately 3,000 individuals and seven Internet access providers in Pennsylvania. The intended object of these transactions has been the downloading of the electronic messages that form the basis of this suit in Pennsylvania.

We find Dot Com's efforts to characterize its conduct as falling short of purposeful availment of doing business in Pennsylvania wholly unpersuasive. . . . Dot Com has done more than advertise on the Internet in Pennsylvania. Defendant has sold passwords to approximately 3,000 subscribers in Pennsylvania and entered into seven contracts with Internet access providers to furnish its services to their customers in Pennsylvania.

Dot Com also contends that its contacts with Pennsylvania residents are "fortuitous" within the meaning of *World-Wide Volkswagen [Corp. v. Woodson]*, 444 U.S. 286, 100 S.Ct. 559 (1980). Defendant argues that it has not "actively" solicited business in Pennsylvania and that any business it conducts with Pennsylvania residents has resulted from contracts that were initiated by Pennsylvanians who visited the Defendant's Web site. The fact that Dot Com's services have been consumed in Pennsylvania is not "fortuitous" within the meaning of *World-Wide Volkswagen*. In *World-Wide Volkswagen*, a couple that had purchased a vehicle in New York, while they were New York residents, were injured while driving that vehicle through Oklahoma and brought suit in an Oklahoma state court. *World-Wide Volkswagen*, 444 U.S. at 288, 100 S.Ct. at 562-63. The manufacturer did not sell its vehicles in Oklahoma and had not made an effort to establish business relationships in Oklahoma. *Id.* at 295, 100 S.Ct. at 566. The Supreme Court characterized the manufacturer's ties with Oklahoma as fortuitous because they resulted entirely out the fact that the plaintiffs had driven their car into that state. *Id.*

Here, Dot Com argues that its contacts with Pennsylvania residents are fortuitous because Pennsylvanians happened to find its Web site or heard about its news service elsewhere and decided to subscribe. This argument misconstrues the concept of fortuitous contacts embodied in *World-Wide Volkswagen*. Dot Com's contacts with Pennsylvania would be fortuitous within the meaning of *World-Wide Volkswagen* if it had no Pennsylvania subscribers and an Ohio subscriber forwarded a copy of a file he obtained from Dot Com to a friend in Pennsylvania or an Ohio subscriber brought his computer along on a trip to Pennsylvania and used it to access Dot Com's service. That is not the situation here. Dot Com repeatedly and consciously chose to process Pennsylvania residents' applications and to assign them passwords. Dot Com knew that the result of these contracts would be the transmission of electronic messages into Pennsylvania. The transmission of these files was entirely within its control. Dot Com cannot maintain that these contracts are "fortuitous" or "coincidental" within the meaning of *World-Wide Volkswagen*. When a defendant makes a conscious choice to conduct business with the residents of a forum state, "it has clear notice that it is subject to suit there." *World-Wide Volkswagen*, 444 U.S. at 297, 100 S.Ct. at 567. Dot Com was under no obligation to sell its services to Pennsylvania

residents. It freely chose to do so, presumably in order to profit from those transactions. If a corporation determines that the risk of being subject to personal jurisdiction in a particular forum is too great, it can choose to sever its connection to the state. *Id.* If Dot Com had not wanted to be amenable to jurisdiction in Pennsylvania, the solution would have been simple—it could have chosen not to sell its services to Pennsylvania residents.

Next, Dot Com argues that its forum-related activities are not numerous or significant enough to create a “substantial connection” with Pennsylvania. Defendant points to the fact that only two percent of its subscribers are Pennsylvania residents. However, the Supreme Court has made it clear that even a single contact can be sufficient. *McGee [v. International Life Ins. Co.]*, 355 U.S. [220 (1957)] at 223, 78 S.Ct. at 201. The test has always focused on the “nature and quality” of the contacts with the forum and not the quantity of those contacts. *International Shoe [v. Washington]*, 326 U.S. [310 (1945)] at 320, 66 S.Ct. at 160. The Sixth Circuit also rejected a similar argument in *CompuServe* when it wrote that the contacts were “deliberate and repeated even if they yielded little revenue.” *CompuServe*, 89, F.3d at 1265.

We also conclude that the cause of action arises out of Dot Com’s forum-related conduct in this case. The Third Circuit has stated that “a cause of action for trademark infringement occurs where the passing off occurs.” *Cottman Transmission Systems Inc. v. Martino*, 36 F.3d 291, 294 (citing *Tefal, S.A. v. Products Int’l Co.*, 529 F.2d 495, 456 n. 1 (3d Cir. 1976); *Indianapolis Colts v. Metro. Baltimore Football*, 34 F.3d 410 (7th Cir. 1994)). . . .

In the instant case, both a significant amount of the alleged infringement and dilution, and resulting injury have occurred in Pennsylvania. The object of Dot Com’s contracts with Pennsylvania residents is the transmission of the messages that Plaintiff claims dilute and infringe upon its trademark. When these messages are transmitted into Pennsylvania and viewed by Pennsylvania residents on their computers, there can be no question that the alleged infringement and dilution occur in Pennsylvania. Moreover, since Manufacturing is a Pennsylvania corporation, a substantial amount of the injury from the alleged wrongdoing is likely to occur in Pennsylvania. Thus, we conclude that the cause of action arises out of Dot Com’s forum-related activities under the authority of both *Tefal* and *Indianapolis Colts*, *supra*.

Finally, Dot Com argues that the exercise of jurisdiction would be unreasonable in this case. We disagree. There can be no question that Pennsylvania has a strong interest in adjudicating disputes involving the alleged infringement of trademarks owned by resident corporations. We must also give due regard to the Plaintiff’s choice to seek relief in Pennsylvania. *Kulko*, 436 U.S. at 92, 98 S.Ct. at 1696–97. These concerns outweigh the burden created by forcing the Defendant to defend the suit in Pennsylvania, especially when Dot Com consciously chose to conduct business in Pennsylvania, pursuing profits from the actions that are now in question. The Due Process Clause is not a “territorial shield to interstate obligations that have been voluntarily assumed.” *Burger King [v. Rudzewicz]*, 471 U.S. [462 (1985)] at 474, 105 S.Ct. at 2183. . . .

[III]. Conclusion

We conclude that this Court may appropriately exercise personal jurisdiction over the Defendant and that venue is proper in this judicial district.

NOTE

For an excellent summary of cases in which courts have either upheld or rejected personal jurisdiction, see, respectively, Dale M. Cendali and Rebecca L. Weinstein, "Business on the Web: Personal Jurisdiction and the Internet," *Multimedia & Web Strategist* 1 (July 1998) and Dale M. Cendali and Rebecca L. Weinstein, "Business on the Web: Personal Jurisdiction and the Internet," *Multimedia & Web Strategist* 1 (August 1998).

12.3 REGULATING CONTENT AND CONTROLLING DISTRIBUTION OF INFORMATION ONLINE

12.3.1 Censorship

This section is excerpted from a publication entitled, *New Media and the Internet: Staying Interactive in the Hi-Tech Environment* (January 2001). The publication was kindly provided by Jeffrey Neuburger, a partner in the New York office of Brown Raysman Millstein Felder & Steiner LLP and an editor of *E-Commerce Law & Strategy* (Leader Publications, a division of American Lawyer Media, Inc.).

New Media, the Internet, and the Law

by Jeffrey Neuburger

Material that is transmitted over the Internet is available to virtually anyone who has access to a computer and modem. Pornography is ubiquitous and lawmakers, community leaders, parents and educators are seeking ways to limit access to obscene and indecent material. Not surprisingly, these efforts at regulating online speech have faced repeated First Amendment challenges by those who oppose any type of Net censorship. In general, courts have upheld laws criminalizing the transmission of child pornography but are hesitant to outlaw the transmission of, or limit access to, material deemed "indecent," "harmful to minors," "patently offensive," or "sexually explicit."

Child Pornography

U.S. v. Mohrbacher [182 F.3d 1041 (9th Cir. 1999)]—The U.S. Court of Appeals for the Ninth Circuit reversed two counts of conviction for transporting child pornography because downloading images from an electronic bulletin board is not "transporting" under 18 U.S.C. § 2252(a)(1). The defendant suggested that downloading an image is analogous to placing an order over the phone through a mail order catalogue except that a computer fills the order automatically and the inventory is not depleted because a new image is generated. The defendant argued that a request to download an image will not be filled unless the bulletin board operator has configured it to accept orders and it is therefore the bulletin board operator who transports the images and the downloader merely receives them. The court looked at the plain meaning of the statute, dictionary definitions, and statutory structure and concluded that the defendant's interpretation of the statute was correct.

U.S. v. Matthews [11 F. Supp. 2d 656 (D.Md. 1998)]—A federal court rejected a reporter's argument that the First Amendment protected him from prosecution for transmitting child pornography over the Internet. Larry Matthews, a freelance journalist, was charged with the unlawful transmission of child pornography over the Internet under 18 U.S.C. § 2252. He moved to have the complaint dismissed, claiming that the First Amendment's protection of the press extends to his use of the images while investigating law enforcement's response to child pornography. The court denied the defendant's motion, explaining that "a press pass is not license

to break the law.” The court continued by stating that First Amendment protection of the press is not unlimited, there are other ways for the defendant to investigate child pornography, and the government’s interest in protecting children from exploitation far outweighs the defendant’s interest in conducting research.

“Indecent” Material

Reno v. [American Civil Liberties Union], 521 U.S. 844 (1997)—Congress’ first attempt to regulate Internet content came in the form of the Communications Decency Act (CDA) [47 U.S.C. 223(a), (d)–(h)] which was enacted in February, 1996, as Title V of the Telecommunications Act of 1996 (the “Telecom Act”) [Pub. L. No. 104–104 (codified as amended at 47 U.S.C. 151 et seq (1996)]. The CDA created criminal liability for the creation, transmission and display of obscene, indecent and patently offensive material to minors over the Internet and commercial online services.

The day President Clinton signed the CDA into law, the ACLU and 19 other plaintiffs filed suit in federal district court, claiming that §§ 223(a)(1)(B)(ii) and 223(d) violated the First Amendment by restricting speech based on content. In July, 1997, the U.S. Supreme Court ruled that the challenged provisions of the statute regulating transmissions and display of “indecent” and “patently offensive” materials are unconstitutional. (The provisions of the CDA that govern the transmission of obscene content may still be enforced.) In reaching its decision, the Court afforded the highest level of First Amendment protection to Internet speech.

ACLU v. Reno [32 F. Supp. 2d 473 (E.D. Pa. 1999)]—Congress’ second attempt to regulate Internet speech is the Child Online Protection Act (COPA) which prohibits commercial web sites from making available to minors material that is “harmful to minors.” When drafting COPA, Congress tried to avoid the constitutional defects of the CDA by using the “harmful to minors” standards which has been upheld by the Supreme Court [in *Ginsberg v. New York*, 390 U.S. 629 (1968)]. COPA provides criminal and civil penalties for commercial web sites that “knowingly” make available to minors material that

(A) the average person, applying contemporary community standards, would find, taking the material as a whole and with respect to minors, is designed to appeal to, or is designed to pander to, the prurient interest;

(B) depicts, describes, or represents, in a manner patently offensive with respect to minors, an actual or simulated sexual act or sexual contact . . . ; and

(C) taken as a whole, lacks serious literary, artistic, political, or scientific value for minors.”

COPA also provides an affirmative defense to web sites that restrict access to harmful material by requiring the use of a credit card, debit card, adult access code, or adult personal identification number or “by accepting a digital certificate that verifies age” or by using “other reasonable measures.”

On October 22, 1998, a day after the bill was enacted, the ACLU and 16 other plaintiffs filed a complaint in federal district court challenging the constitutionality of the law. The Third Circuit Court of Appeals affirmed a permanent injunction issued by the District Court against the enforcement of the new law, finding that the “harmful to minors” standard would require Web site operators—operating in the borderless community of Cyberspace—to abide by the most restrictive community standards in the country in order to avoid liability, and that the statute was thus overbroad. The court noted that “current technology does not permit a Web publisher to restrict access to its site based on the geographic locale of each particular Internet user.”

NOTES

1. *Reno v. ACLU*, 521 U.S. 844 (1997), discussed above, establishes an extremely high bar to Internet censorship, as is evidenced by observations in both the majority and

concurring/partially dissenting opinions. The challenged provisions had been inserted in the CDA by floor amendment and in conference committee, and were not supported by any legislative history. The CDA was vague; it did not define “indecent transmission” or “patently offensive display,” nor did it incorporate references to other statutes defining such terms. It was overbroad (as in many cases involving traditional media) and the Court was especially disturbed by the fact that a statutory defense to criminal penalties required that actions to exclude minors be “good faith, reasonable, effective, and appropriate,” instead of merely taken reasonably and in good faith, or that the distributor “restrict[] access to such communication by requiring use of a verified credit card, debit account, adult access code, or adult personal identification number.” Similar fates have befallen other attempts at censorship (as opposed to content-neutral “time, place and manner” regulations). However, it is clear that the Court saw the Internet as unique, requiring special care.

Speaking for the majority, Mr. Justice Stevens stated that:

... In *Ginsberg* [*v. New York*, 390 U.S. 629, 88 S.Ct. 1274, 20 L.Ed.2d 195 (1968)], we upheld the constitutionality of a New York statute that prohibited selling to minors under 17 years of age material that was considered obscene as to them even if not obscene as to adults. ... In four important respects, the statute upheld in *Ginsberg* was narrower than the CDA. First, we noted in *Ginsberg* that “the prohibition against sales to minors does not bar parents who so desire from purchasing the magazines for their children.” ... Under the CDA, by contrast, neither the parents’ consent—nor even their participation—in the communication would avoid the application of the statute. Second, the New York statute applied only to commercial transactions ... whereas the CDA contains no such limitation. Third, the New York statute cabined its definition of material that is harmful to minors with the requirement that it be “utterly without redeeming social importance for minors.” ... The CDA fails to provide us with any definition of the term “indecent” ... and, importantly, omits any requirement that the “patently offensive” material ... lack serious literary, artistic, political, or scientific value. Fourth, the New York statute defined a minor as a person under the age of 17, whereas the CDA, in applying to all those under 18 years, includes an additional year of those nearest majority.

In [*FCC v.*] *Pacifica* [*Foundation*, 438 U.S. 726, 98 S.Ct. 3026, 57 L.Ed.2d 1073 (1978)], we upheld a declaratory order of the Federal Communications Commission, holding that the broadcast of a recording of a 12-minute monologue entitled “Filthy Words” that had previously been delivered to a live audience “could have been the subject of administrative sanctions.” ... [T]he Court concluded that the ease with which children may obtain access to broadcasts, “coupled with the concerns recognized in *Ginsberg*,” justified special treatment of indecent broadcasting. ...

[Similarly], there are significant differences between the order upheld in *Pacifica* and the CDA. First, the order in *Pacifica*, issued by an agency that had been regulating radio stations for decades, targeted a specific broadcast that represented a rather dramatic departure from traditional program content in order to designate when—rather than whether—it would be permissible to air such a program in that particular medium. The CDA’s broad categorical prohibitions are not limited to particular times and are not dependent on any evaluation by an agency familiar with the unique characteristics of the Internet. Second, unlike the CDA, the Commission’s declaratory order was not punitive; we expressly refused to decide whether the indecent broadcast “would justify a criminal prosecution.” ... Finally, the Commission’s order applied to a medium which as a matter of history had “received the most limited First Amendment protection,” ... in large part because warnings could not adequately protect the listener from unexpected program content. The Internet, however, has no comparable history. Moreover, the District Court found that the risk of encountering indecent material by accident is remote because a series of affirmative steps is required to access specific material.

In *Renton* [*v. Playtime Theaters, Inc.*, 475 U.S. 41, 106 S.Ct. 925, 89 L.Ed.2d 29 (1986)], we upheld a zoning ordinance that kept adult movie theaters out of residential neighborhoods. The ordinance was aimed, not at the content of the films shown in the theaters, but rather at the “secondary effects”—such as crime and deteriorating property values—that these theaters fostered: “It is th[e] secondary effect which these zoning ordinances attempt to avoid, not the dissemination of ‘offensive’ speech.” 475 U.S., at 49, 106 S.Ct., at 930 (quoting *Young v.*

American Mini Theaters, Inc., 427 U.S. 50, 71, n. 34, 96 S.Ct. 2440, 2453, n. 34, 49 L.Ed.2d 310 [1976]). According to the Government, the CDA is constitutional because it constitutes a sort of “cyberzoning” on the Internet. But the CDA applies broadly to the entire universe of cyberspace. And the purpose of the CDA is to protect children from the primary effects of “indecent” and “patently offensive” speech, rather than any “secondary” effect of such speech. Thus, the CDA is a content-based blanket restriction on speech, and, as such, cannot be “properly analyzed as a form of time, place, and manner regulation.” . . .

These precedents, then, surely do not require us to uphold the CDA and are fully consistent with the application of the most stringent review of its provisions.

[The factors which have been held to justify FCC broadcast regulation] are not present in cyberspace. Neither before nor after the enactment of the CDA have the vast democratic fora of the Internet been subject to the type of government supervision and regulation that has attended the broadcast industry. Moreover, the Internet is not as “invasive” as radio or television. The District Court specifically found that “[c]ommunications over the Internet do not ‘invade’ an individual’s home or appear on one’s computer screen unbidden. Users seldom encounter content ‘by accident.’” 929 F. Supp., at 844 (finding 88). It also found that “[a]lmost all sexually explicit images are preceded by warnings as to the content,” and cited testimony that “‘odds are slim’ that a user would come across a sexually explicit sight by accident.” . . .

Finally, unlike the conditions that prevailed when Congress first authorized regulation of the broadcast spectrum, the Internet can hardly be considered a “scarce” expressive commodity. It provides relatively unlimited, low-cost capacity for communication of all kinds. . . . We agree with [the District Court’s] conclusion that our cases provide no basis for qualifying the level of First Amendment scrutiny that should be applied to this medium.

In arguing that the CDA does not [improperly] diminish adult communication, the Government relies on the incorrect factual premise that prohibiting a transmission whenever it is known that one of its recipients is a minor would not interfere with adult-to-adult communication. [However, g]iven the size of the potential audience for most messages, in the absence of a viable age verification process, the sender must be charged with knowing that one or more minors will likely view it. Knowledge that, for instance, one or more members of a 100-person chat group will be minor—and therefore that it would be a crime to send the group an indecent message—would surely burden communication among adults. . . . The District Court found that at the time of trial existing technology did not include any effective method for a sender to prevent minors from obtaining access to its communications on the Internet without also denying access to adults. The Court found no effective way to determine the age of a user who is accessing material through e-mail, mail exploders, newsgroups, or chat rooms . . . [and] that it would be prohibitively expensive for noncommercial—as well as some commercial—speakers who have Web sites to verify that their users are adults. . . . These limitations must inevitably curtail a significant amount of adult communication on the Internet. By contrast, the District Court found that “[d]espite its limitations, currently available user-based software suggests that a reasonably effective method by which parents can prevent their children from accessing sexually explicit and other material which parents may believe is inappropriate for their children will soon be widely available.”

The breadth of the CDA’s coverage is wholly unprecedented. Unlike the regulations upheld in *Ginsberg* and *Pacifica*, the scope of the CDA is not limited to commercial speech or commercial entities. Its open-ended prohibitions embrace all nonprofit entities and individuals posting indecent messages or displaying them on their own computers in the presence of minors. . . . Moreover, the “community standards” criterion as applied to the Internet means that any communication available to a nation-wide audience will be judged by the standards of the community most likely to be offended by the message. . . .

[M]ost Internet fora—including chat rooms, newsgroups, mail exploders, and the Web—are open to all comers. The Government’s assertion that the knowledge requirement somehow protects the communications of adults is therefore untenable. Even the strongest reading of the “specific person” requirement of 223(d) cannot save the statute. It would confer broad powers of censorship, in the form of a “heckler’s veto,” upon any opponent of indecent speech who might simply log on and inform the would-be discourses that his 17-year-old child—a “specific person . . . under 18 years of age,” 47 U.S.C.A. 223(d)(1)(A) (Supp. 1997)—would be present. . . .

[Access can be limited] by requiring use of a verified credit card or adult identification. Such verification is not only technologically available but actually is used by commercial providers of sexually explicit material. These providers, therefore, would be protected by the

defense. Under the findings of the District Court, however, it is not economically feasible for most noncommercial speakers to employ such verification. Accordingly, this defense would not significantly narrow the statute's burden on noncommercial speech. Even with respect to the commercial pornographers that would be protected by the defense, the Government failed to adduce any evidence that these verification techniques actually preclude minors from posing as adults. . . . The CDA, casting a far darker shadow over free speech, threatens to torch a large segment of the Internet community. . . .

[T]he Government asserts that—in addition to its interest in protecting children—its “[e]qually significant” interest in fostering the growth of the Internet provides an independent basis for upholding the constitutionality of the CDA. . . . The Government apparently assumes that the unregulated availability of “indecent” and “patently offensive” material on the Internet is driving countless citizens away from the medium because of the risk of exposing themselves or their children to harmful material.

We find this argument singularly unpersuasive. The dramatic expansion of this new marketplace of ideas contradicts the factual basis of this contention. The record demonstrates that the growth of the Internet has been and continues to be phenomenal. As a matter of constitutional tradition, in the absence of evidence to the contrary, we presume that governmental regulation of the content of speech is more likely to interfere with the free exchange of ideas than to encourage it. The interest in encouraging freedom of expression in a democratic society outweighs any theoretical but unproven benefit of censorship.

Justice O'Connor (with whom Chief Justice Rehnquist joined) agreed that

[A] “zoning” law is valid only if adults are still able to obtain the regulated speech. If they cannot, the law does more than simply keep children away from speech they have no right to obtain—it interferes with the rights of adults to obtain constitutionally protected speech and effectively “reduce[s] the adult population. . . . to reading only what is fit for children.” *Butler v. Michigan*, 352 U.S. 380, 383, 77 S.Ct. 524, 526, 1 L.Ed.2d 412 (1957). . . . Before today, there was no reason to question this assumption, for the Court has previously only considered laws that operated in the physical world, a world that with two characteristics that make it possible to create “adult zones”: geography and identity. See Lessig, *Reading the Constitution in Cyberspace*, 45 *Emory L. J.* 869, 886 (1996). . . . [However, t]he electronic world is fundamentally different. Because it is no more than the interconnection of electronic pathways, cyberspace allows speakers and listeners to mask their identities. Cyberspace undeniably reflects some form of geography; chat rooms and Web sites, for example, exist at fixed “locations” on the Internet. Since users can transmit and receive messages on the Internet without revealing anything about their identities or ages, see Lessig, *supra*, at 901, however, it is not currently possible to exclude persons from accessing certain messages on the basis of their identity.

Cyberspace differs from the physical world in another basic way: Cyberspace is malleable. Thus, it is possible to construct barriers in cyberspace and use them to screen for identity, making cyberspace more like the physical world and, consequently, more amenable to zoning laws. . . . Internet speakers (users who post material on the Internet) have begun to zone cyberspace itself through the use of “gateway” technology. Such technology requires Internet users to enter information about themselves—perhaps an adult identification number or a credit card number—before they can access certain areas of cyberspace. . . .

Until gateway technology is available throughout cyberspace, and it is not in 1997, a speaker cannot be reasonably assured that the speech he displays will reach only adults because it is impossible to confine speech to an “adult zone.” . . .

[Justice O'Connor, however, would have upheld the statute insofar as its scope could be limited to situations involving a knowing transmission by a single adult to one or more minors.]

2. In contrast to the optimism displayed by the Supreme Court in the foregoing decision, according to one critic, screening technology, “called software filters by their advocates and censorware by their critics, are not very effective and screen for too much.” Charles Marson, “The Great Filter Folly,” *California Lawyer*, January 2000, p. 53.

3. In *American Library Association v. Pataki*, 969 F. Supp. 160 (S.D.N.Y. 1997), a New York statute modeled on Section 230 of the Communications Decency Act of 1996 was held to be an unconstitutional interference with interstate commerce.

4. However, traditional obscenity prosecutions are still possible. For example, in *United States v. Thomas*, 74 F.3d 701 (6th Cir. 1996), criminal liability under federal statutes

prohibiting the distribution of obscene materials in interstate or foreign commerce was upheld based on “community standards” prevalent in Tennessee, where a postal inspector downloaded materials from a California bulletin board in response to a complaint from a Tennessee resident. (The three-part *Miller* test is discussed in the *Skywalker* decision. See Sec. 5.3.3.)

12.3.2 Control of Access: Framing and Linking

Previously, websites could contain hyperlinks to other websites without the risk of litigation. However, with the introduction of framing (a more sophisticated form of linking), website operators have brought copyright infringement actions against other website operators for the unauthorized links. Framing allows visitors of Website A to link to Website B while particular information (usually advertisement provided by Website A) remains as a frame around Website B. See John F. Delaney & Robert Murphy, “The Law of the Internet: A Summary of U.S. Internet Caselaw and Legal Developments,” 570 *Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series* (PLI) 169, 227 August/September 1999.

Framing can cause confusion as to the source of the information and can allow the framing website to generate advertising revenues solely from the efforts of a third party. In 1997, media giants such as The Washington Post Company and CNN brought an action against Total News, Inc. for framing their websites. The case settled. Although Total News was permitted under certain circumstances to link Plaintiff’s websites via hyperlinks, Total News agreed “permanently not to directly or indirectly cause any Plaintiff’s website to appear on a user’s computer screen with any material . . . supplied by or associated with Defendant.” The public stipulation and order of settlement and dismissal of the case can be viewed at <<<http://legal.web.aol.com/decisions/dlip/washorde.html>>>.

However, at least one court has held that hyperlinking is not *per se* a copyright infringement. In *Ticketmaster Corp. v. Tickets.com, Inc.*, 2000 U.S. Dist. LEXIS 4553 (C.D. Ca. March 27, 2000), District Judge Hupp stated that the use of a hyperlink was “analogous to using a library’s card index to get reference to particular items, albeit faster and more efficiently.” Ticketmaster was allowed to proceed with its copyright claims because it had alleged actual copying of its interior web pages. (Plaintiff’s claims of unfair competition and false advertising were also allowed to proceed.)

NOTE

See, also, Michael T. Zeller, “How to Combat Attempts to Divert Web Traffic,” *The Internet Newsletter*, January 2000, p. 1.

12.4 LIABILITY OF INTERNET SERVICE PROVIDERS

12.4.1 Defamation

As more people gain access to the Internet, more defamatory material is posted there. In addition to asserting claims over the individuals who posted the defamatory material, injured parties have attempted to hold liable the Internet Service Providers (ISPs) on which the material appeared. The ISPs have argued that they

are more similar to common carriers than to publishers; therefore, they should not be responsible for the content of the transmitted messages.

Zeran v. America Online, Inc., 129 F.3d 327 (4th Cir. 1997), cert. denied 118 S.Ct. 2341 (1998).

WILKINSON, CHIEF JUDGE

Kenneth Zeran brought this action against America Online, Inc. (“AOL”), arguing that AOL unreasonably delayed in removing defamatory messages posted by an unidentified third party, refused to post retractions of those messages, and failed to screen for similar postings thereafter. The district court granted judgment for AOL on the grounds that the Communications Decency Act of 1996 (“CDA”)—47 U.S.C. 230—bars Zeran’s claims. Zeran appeals, arguing that 230 leaves intact liability for interactive computer service providers who possess notice of defamatory material posted through their services. He also contends that 230 does not apply here because his claims arise from AOL’s alleged negligence prior to the CDA’s enactment. Section 230, however, plainly immunizes computer service providers like AOL from liability for information that originates with third parties. Furthermore, Congress clearly expressed its intent that 230 apply to lawsuits, like Zeran’s, instituted after the CDA’s enactment. Accordingly, we affirm the judgment of the district court. . . .

AOL is . . . an interactive computer service. Much of the information transmitted over its network originates with the company’s millions of subscribers. They may transmit information privately via electronic mail, or they may communicate publicly by posting messages on AOL bulletin boards, where the messages may be read by any AOL subscriber.

The instant case comes before us on a motion for judgment on the pleadings, see Fed.R.Civ.P. 12(c), so we accept the facts alleged in the complaint as true. *Bruce v. Riddle*, 631 F.2d 272, 273 (4th Cir. 1980). On April 25, 1995, an unidentified person posted a message on an AOL bulletin board advertising “Naughty Oklahoma T-Shirts.” The posting described the sale of shirts featuring offensive and tasteless slogans related to the April 19, 1995, bombing of the Alfred P. Murrah Federal Building in Oklahoma City. Those interested in purchasing the shirts were instructed to call “Ken” at Zeran’s home phone number in Seattle, Washington. As a result of this anonymously perpetrated prank, Zeran received a high volume of calls, comprised primarily of angry and derogatory messages, but also including death threats. Zeran could not change his phone number because he relied on its availability to the public in running his business out of his home. Later that day, Zeran called AOL and informed a company representative of his predicament. The employee assured Zeran that the posting would be removed from AOL’s bulletin board but explained that as a matter of policy AOL would not post a retraction. The parties dispute the date that AOL removed this original posting from its bulletin board.

On April 26, the next day, an unknown person posted another message advertising additional shirts with new tasteless slogans related to the Oklahoma City bombing. Again, interested buyers were told to call Zeran’s phone number, to ask for “Ken,” and to “please call back if busy” due to high demand. The angry, threatening phone calls intensified. Over the next four days, an unidentified party continued to post messages on AOL’s bulletin board, advertising additional items including bumper stickers and key chains with still more offen-

sive slogans. During this time period, Zeran called AOL repeatedly and was told by company representatives that the individual account from which the messages were posted would soon be closed. Zeran also reported his case to Seattle FBI agents. By April 30, Zeran was receiving an abusive phone call approximately every two minutes.

Meanwhile, an announcer for Oklahoma City radio station KRXO received a copy of the first AOL posting. On May 1, the announcer related the message's contents on the air, attributed them to "Ken" at Zeran's phone number, and urged the listening audience to call the number. After this radio broadcast, Zeran was inundated with death threats and other violent calls from Oklahoma City residents. Over the next few days, Zeran talked to both KRXO and AOL representatives. He also spoke to his local police, who subsequently surveilled his home to protect his safety. By May 14, after an Oklahoma City newspaper published a story exposing the shirt advertisements as a hoax and after KRXO made an on-air apology, the number of calls of Zeran's residence finally subsided to fifteen per day.

Zeran first filed suit on January 4, 1996, against radio station KRXO in the United States District Court for the Western District of Oklahoma. On April 23, 1996, he filed this separate suit against AOL in the same court. Zeran did not bring any action against the party who posted the offensive messages. . . . After Zeran's suit against AOL was transferred to the Eastern District of Virginia pursuant to 28 U.S.C. 1404(a), AOL answered Zeran's complaint and interposed 47 U.S.C. 230 as an affirmative defense. AOL then moved for judgment on the pleadings pursuant to Fed.R.Civ.P. 12(c). The district court granted AOL's motion, and Zeran filed this appeal.

II.

A.

Because 230 was successfully advanced by AOL in the district court as a defense to Zeran's claims, we shall briefly examine its operation here. Zeran seeks to hold AOL liable for defamatory speech initiated by a third party. He argued to the district court that once he notified AOL of the unidentified third party's hoax, AOL had a duty to remove the defamatory posting promptly, to notify its subscribers of the message's false nature, and to effectively screen future defamatory material. Section 230 entered this litigation as an affirmative defense pled by AOL. The company claimed that Congress immunized interactive computer service providers from claims based on information posted by a third party.

The relevant portion of 230 states: "No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." 47 U.S.C. 230(c)(1). . . . By its plain language, 230 creates a federal immunity to any cause of action that would make service providers liable for information originating with a third-party user of the service. Specifically, 230 precludes courts from entertaining claims that would place a computer service provider in a publisher's role. Thus, lawsuits seeking to hold a service provider liable for its exercise of a publisher's traditional editorial functions—such as deciding whether to publish, withdraw, postpone or alter content—are barred.

The purpose of this statutory immunity is not difficult to discern. Congress

recognized the threat that tort-based lawsuits pose to freedom of speech in the new and burgeoning Internet medium. The imposition of tort liability on service providers for the communications of others represented, for Congress, simply another form of intrusive government regulation of speech. Section 230 was enacted, in part, to maintain the robust nature of Internet communication and, accordingly, to keep government interference in the medium to a minimum. In specific statutory findings, Congress recognized the Internet and interactive computer services as offering “a forum for a true diversity of political discourse, unique opportunities for cultural development, and myriad avenues for intellectual activity.” *Id.* 230(a)(3). It also found that the Internet and interactive computer services “have flourished, to the benefit of all Americans, with a minimum of government regulation.” *Id.* 230(a)(4). Congress further stated that it is “the policy of the United States . . . to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation.” *Id.* 230(b)(2).

None of this means, of course, that the original culpable party who posts defamatory messages would escape accountability. While Congress acted to keep government regulation of the Internet to a minimum, it also found it to be the policy of the United States “to ensure vigorous enforcement of Federal criminal laws to deter and punish trafficking in obscenity, stalking, and harassment by means of computer.” *Id.* 230(b)(5). Congress made a policy choice, however, not to deter harmful online speech through the separate route of imposing tort liability on companies that serve as intermediaries for other parties’ potentially injurious messages.

Congress’ purpose in providing the 230 immunity was thus evident. Interactive computer services have millions of users. See *Reno v. ACLU*,—U.S. at—, 117 S.Ct. at 2334 (noting that at time of district court trial, “commercial online services had almost 12 million individual subscribers”). The amount of information communicated via interactive computer services is therefore staggering. The specter of tort liability in an area of such prolific speech would have an obvious chilling effect. It would be impossible for service providers to screen each of their millions of postings for possible problems. Faced with potential liability for each message republished by their services, interactive computer service providers might choose to severely restrict the number and type of messages posted. Congress considered the weight of the speech interests implicated and chose to immunize service providers to avoid any such restrictive effect.

Another important purpose of 230 was to encourage service providers to self-regulate the dissemination of offensive material over their services. In this respect, 230 responded to a New York state court decision, *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*, 1995 WL 323710 (N.Y.Sup.Ct May 24, 1995). There, the plaintiffs sued Prodigy—an interactive computer service like AOL—for defamatory comments made by an unidentified party on one of Prodigy’s bulletin boards. The court held Prodigy to the strict liability standard normally applied to original publishers of defamatory statements, rejecting Prodigy’s claims that it should be held only to the lower “knowledge” standard usually reserved for distributors. The court reasoned that Prodigy acted more like an original publisher than a distributor both because it advertised its practice of controlling content on its service and because it actively screened and edited messages posted on its bulletin boards.

Congress enacted 230 to remove the disincentives to self regulation created

by the *Stratton Oakmont* decision. Under that court's holding, computer service providers who regulated the dissemination of offensive material on their services risked subjecting themselves to liability, because such regulation cast the service provider in the role of a publisher. Fearing that the specter of liability would therefore deter service providers from blocking and screening offensive material, Congress enacted 230's broad immunity "to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material." 47 U.S.C. 230(b)(4). In line with this purpose, 230 forbids the imposition of publisher liability on a service provider for the exercise of its editorial and self-regulatory functions.

B.

Zeran argues, however, that the 230 immunity eliminates only publisher liability, leaving distributor liability intact. Publishers can be held liable for defamatory statements contained in their works even absent proof that they had specific knowledge of the statement's inclusion. W. Page Keeton et al., *Prosser and Keeton on the Law of Torts* 113, at 810 (5th ed. 1984). According to Zeran, interactive computer service providers like AOL are normally considered instead to be distributors, like traditional news vendors or book sellers. Distributors cannot be held liable for defamatory statements contained in the materials they distribute unless it is proven at a minimum that they have actual knowledge of the defamatory statements upon which liability is predicated. *Id.* at 811 (explaining that distributors are not liable "in the absence of proof that they knew or had reason to know of the existence of defamatory matter contained in matter published"). Zeran contends that he provided AOL with sufficient notice of the defamatory statements appearing on the company's bulletin board. This notice is significant, says Zeran, because AOL could be held liable as a distributor only if it acquired knowledge of the defamatory statements' existence.

Because of the difference between these two forms of liability, Zeran contends that the term "distributor" carries a legally distinct meaning from the term "publisher." Accordingly, he asserts that Congress' use of only the term "publisher" in 230 indicates a purpose to immunize service providers only from publisher liability. He argues that distributors are left unprotected by 230 and, therefore, his suit should be permitted to proceed against AOL. We disagree. Assuming arguendo that Zeran has satisfied the requirements for imposition of distributor liability, this theory of liability is merely a subset, or a species, of publisher liability, and is therefore also foreclosed by 230.

The terms "publisher" and "distributor" derive their legal significance from the context of defamation law. Although Zeran attempts to artfully plead his claims as ones of negligence, they are indistinguishable from a garden variety defamation action. Because the publication of a statement is a necessary element in a defamation action, only one who publishes can be subject to this form of tort liability. Restatement (Second) of Torts 558(b) (1977); Keeton et al., *supra*, 113, at 802. Publication does not only describe the choice by an author to include certain information. In addition, both the negligent communication of a defamatory statement and the failure to remove such a statement when first communicated by another party—each alleged by Zeran here under a negligence label—constitute publication. Restatement (Second) of Torts 577; see also *Tacket v. General Motors Corp.*, 836 F.2d 1042, 1046–47 (7th Cir. 1987). In fact, every

repetition of a defamatory statement is considered a publication. Keeton et al., *supra*, 113, at 799.

In this case, AOL is legally considered to be a publisher. “[E]very one who takes part in the publication . . . is charged with publication.” *Id.* Even distributors are considered to be publishers for purposes of defamation law:

Those who are in the business of making their facilities available to disseminate the writings composed, the speeches made, and the information gathered by others may also be regarded as participating to such an extent in making the books, newspapers, magazines, and information available to others as to be regarded as publishers. They are intentionally making the contents available to others, sometimes without knowing all of the contents—including the defamatory content—and sometimes without any opportunity to ascertain, in advance, that any defamatory matter was to be included in the matter published.

Id. at 803. AOL falls squarely within this traditional definition of a publisher and, therefore, is clearly protected by 230’s immunity. . . .

Zeran next contends that interpreting 230 to impose liability on service providers with knowledge of defamatory content on their services is consistent with the statutory purposes outlined in Part IIA. Zeran fails, however, to understand the practical implications of notice liability in the interactive computer service context. Liability upon notice would defeat the dual purposes advanced by 230 of the CDA. Like the strict liability imposed by the *Stratton Oakmont* court, liability upon notice reinforces service providers’ incentives to restrict speech and abstain from self-regulation.

If computer service providers were subject to distributor liability, they would face potential liability each time they receive notice of a potentially defamatory statement—from any party, concerning any message. Each notification would require a careful yet rapid investigation of the circumstances surrounding the posted information, a legal judgment concerning the information’s defamatory character, and an on-the-spot editorial decision whether to risk liability by allowing the continued publication of that information. Although this might be feasible for the traditional print publisher, the sheer number of postings on interactive computer services would create an impossible burden in the Internet context. Cf. *Auwil v. CBS 60 Minutes*, 800 F. Supp. 928, 931 (E.D. Wash. 1992) (recognizing that it is unrealistic for network affiliates to “monitor incoming transmissions and exercise on-the-spot discretionary calls”). Because service providers would be subject to liability only for the publication of information, and not for its removal, they would have a natural incentive simply to remove messages upon notification, whether the contents were defamatory or not. See *Philadelphia Newspapers, Inc. v. Hepps*, 475 U.S. 767, 777, 106 S. Ct. 1558, 1564, 89 L.Ed.2d 783 (1986) (recognizing that fears of unjustified liability produce a chilling effect antithetical to First Amendment’s protection of speech). Thus, like strict liability, liability upon notice has a chilling effect on the freedom of Internet speech.

Similarly, notice-based liability would deter service providers from regulating the dissemination of offensive material over their own services. Any efforts by a service provider to investigate and screen material posted on its service would only lead to notice of potentially defamatory material more frequently and thereby create a stronger basis for liability. Instead of subjecting themselves to

further possible lawsuits, service providers would likely eschew any attempts at self-regulation.

More generally, notice-based liability for interactive computer service providers would provide third parties with a no-cost means to create the basis for future lawsuits. Whenever one was displeased with the speech of another party conducted over an interactive computer service, the offended party could simply “notify” the relevant service provider, claiming the information to be legally defamatory. In light of the vast amount of speech communicated through interactive computer services, these notices could produce an impossible burden for service providers, who would be faced with ceaseless choices of suppressing controversial speech or sustaining prohibitive liability. Because the probable effects of distributor liability on the vigor of Internet speech and on service provider self-regulation are directly contrary to 230’s statutory purposes, we will not assume that Congress intended to leave liability upon notice intact. . . .

Section 230 represents the approach of Congress to a problem of national and international dimension. The Supreme Court underscored this point in *Reno v. ACLU*, finding that the Internet allows “tens of millions of people to communicate with one another and to access vast amounts of information from around the world. [It] is ‘a unique and wholly new medium of worldwide human communication.’”—U.S. at —, 117 S.Ct. at 2334 [citation omitted]. Application of the canon invoked by Zeran here would significantly lessen Congress’ power, derived from the Commerce Clause, to act in a field whose international character is apparent. While Congress allowed for the enforcement of “any State law that is consistent with [§ 230],” 47 U.S.C. 230(d)(3), it is equally plain that Congress’ desire to promote unfettered speech on the Internet must supersede conflicting common law causes of action. Section 230(d)(3) continues: “No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section.” With respect to federal-state preemption, the Court has advised: “[W]hen Congress has ‘unmistakably . . . ordained,’ that its enactments alone are to regulate a part of commerce, state laws regulating that aspect of commerce must fall. The result is compelled whether Congress’ command is explicitly stated in the statute’s language or implicitly contained in its structure and purpose.” *Jones v. Rath Packing Co.*, 430 U.S. 519, 525, 97 S.Ct. 1305, 1309, 51 L.Ed.2d 604 (1977) [citations omitted]. Here, Congress’ command is explicitly stated. Its exercise of its commerce power is clear and counteracts the caution counseled by the interpretive canon favoring retention of common law principles. . . .

NOTE

In *Lunney v. Prodigy Services Company*, 250 A.D.2d 230, 683 N.Y.S.2d 557 (N.Y. App. Div., 2d Dept. 1998), the court held that an ISP cannot be held liable if it does not engage in an editorial function or “at least [in a] participatory function” in the posting of offending and threatening e-mails.

12.4.2 Privacy

12.4.2.1 Consumer Profiles

Here, too, the Internet provides new challenges to old concepts. As noted in the introduction to this section, the ease with which a hacker at an undisclosed

location (believed to be somewhere in the former Soviet Bloc) was able to obtain 300,000 consumer data files from CD Universe Inc. via the Internet is reason for concern.

That such vast stores of personal information exist comes as no surprise. Internet companies have the capability to embed “cookies” to track computer users’ behavior. Six invasion-of-privacy suits (including three class actions) were filed in February 2000 (alleging violations of federal wiretapping and electronic communications laws) against DoubleClick, Inc., an Internet company which places advertising on Internet sites for its clients, and which planned to link computer users’ identities to the previously anonymous information provided by the “cookies.” (DoubleClick is not alone in being a litigation target; a privacy action was also filed against Yahoo! in January 2000.) In November 1999, after amassing 100 million personal files on individual computers through the use of “cookies,” DoubleClick acquired Abacus Direct and thereby gained an additional database of 90 million files, with the aim of making them (and the identity of the consumers who utilized the computers) available to its advertising clients and others for target marketing. Although DoubleClick had instituted a system under which potential subjects could elect to decline to participate, the complainants considered it too little, too late. According to the lawsuits, most consumers who clicked onto one of the 11,500 websites in DoubleClick’s ad network were unaware that their personal data were being collected and made available to third parties. On February 8, 2000, at or about the time of filing of a complaint by the Electronic Privacy Information Center, the Federal Trade Commission announced an investigation into DoubleClick’s business practices. The next day, the Attorney General of Michigan announced his own investigation (the Attorney General of New York had also commenced an investigation.). As a result, on March 3, 2000, DoubleClick announced that it had halted plans to link people’s names and addresses to their Web-surfing habits.

Nevertheless, the ease with which individuals’ private data can be captured and retransmitted via the Internet is and will continue to be an area of major concern.

12.4.2.2 Spamming

The converse of consumer profiling, “spamming” is the transmission of unwanted junk mail and other communications. In *America Online, Inc. v. IMS*, 245 F.Supp. 2d 548 (E.D. Va. 1998), defendants transmitted 60 million unsolicited emails via AOL, resulting in the receipt by AOL of more than 50,000 subscriber complaints. The court found that the defendants had violated the “false designation of origin” branch of Section 43a of the Lanham Act, 15 U.S.C. 1125(a). California has adopted a statute (AB 1629 and AB 1676), signed into law in September 1996, which added 17538.4 and 17538.45 to the Business & Professions Code and 502 to the Penal Code, providing both criminal and civil penalties against those who send “spam” to California residents via computer equipment based in California. “Spam,” for the purposes of the California statute, consists of a message which “promotes, directly or indirectly, the sale or distribution of goods or services” which is sent to someone with whom the sender does not have a “prior business or personal relationship” or from whom the sender has not obtained “express consent.”

NOTES

1. For a discussion of the California statutes, see Andrew S. Mansfield, "Calif. Adopts Tough New Junk E-Mail Laws," *The Internet Newsletter*, December 1998, p. 6. On the same page, Wendy R. Leibowitz recommends two websites dealing with the issue of spamming: <http://www.jmls.edu/cyber/index/spam.html> and <http://www.cauce.org>.

2. The spamming laws have not avoided judicial disapproval. On March 15, 2000, Washington State's anti-spamming law, viewed to be one of the nation's strongest, was struck down as unconstitutional because it impeded the transaction of interstate commerce. See Sherman Fridman, "Court Strikes Down Washington State's Anti-Spamming Law," *Newsbytes* (March 15, 2000).

3. In addition, at least one decision, *Cybersell, Inc. v. Cyber Sell, Inc.*, 130 F.3d 414 (9th Cir. 1997) has held that mere spamming is not sufficient contact to support the exercise of long-arm jurisdiction over an out-of-state defendant.

12.5 COPYRIGHT INFRINGEMENT

12.5.1 Digital Millennium Copyright Act

Internet and other digital technologies are affected by the following international treaties and domestic legislation adopted within the last ten years.

- The Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237, which imposed a surcharge on digital recording equipment and digital "blanks," in recognition of their potential to cut into sales of traditional records.
- The 1994 Uruguay Round of the General Agreement on Tariffs and Trade, incorporating provisions concerning the trade-related aspects of intellectual property rights (the so-called TRIPS provisions), 33 I.L.M. 136 (1994), which added to, and provided for, enforcement via the World Trade Organization of the intellectual property protections previously provided under the Berne Convention and other international agreements.
- The Digital Performance in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336 (1995), which, for the first time (and to a limited extent), accorded a performance right in sound recordings.
- The World Intellectual Property Organization Treaty on Copyright, CRNR/DC/94 (adopted Dec. 20, 1996), which recognized the right of digital distribution.
- The WIPO Treaty on Performances and Phonograms, CRNR/DC/94 (adopted Dec. 20, 1996), which broadened the recognition of the rights of broadcasters, performers, and the creators of phonograms.
- The No Electronic Theft Act, Pub. L. No. 105-147, 111 Stat. 2678 (1997), enacted in response to the decision in *United States v. LaMacchia*, 871 F. Supp. 535 (D. Mass. 1994) (MIT student uploader acquitted of wire fraud charge by reason of lack of profit motive) which made it a crime to willfully upload copyrighted materials to the Internet (with very low minimum thresholds: one or more uploads in a 180-day period of copyrighted works having an aggregate retail value of \$1,000 or more can result in a fine and/or imprisonment, which can be up to three years if the retail value exceeds \$2,500, with potential imprisonment for up to six years for a second or subsequent offense) regardless of the presence or absence of a profit motive. The first conviction under this statute was recorded in December 1999.
- The Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 28601 (1998) (the "DMCA"). Among other things, the DMCA bound the United States to the 1996 World Intellectual Property Organization (WIPO) treaties and expanded the scope of the performance right in sound recordings (while at the same time providing com-

pulsory licensing to “streaming” stations). In addition, the DMCA establishes a potential “safe harbor” for an ISP when copyright infringement is committed by a third party through the use of the ISP’s facilities. The DMCA does not change existing law concerning either infringement or defenses to infringement. However, Section 202 establishes four situations in which an ISP can be immune.

1. Where the ISP serves as a mere conduit.
2. “System caching,” that is, autocopying/retention of copies such as frequently visited remote websites, to improve network performance and reduce congestion.
3. Where the ISP provides access without receiving a direct financial benefit, is unaware of the infringement, and is unaware of facts and circumstances under which the infringement would be apparent, and has not received notification thereof.
4. Where the ISP serves as a hyperlink to infringing material that appears on another service.

The DMCA sets up a “notice and takedown” procedure under which copyright proprietors can notify an ISP of the presence of infringing material and demand its removal. If the ISP proceeds to remove the material expeditiously, and otherwise meets the foregoing criteria, the ISP will be immune from damages and/or injunctive relief at the behest of either side. Provision is made for notice by the ISP to the uploader, who has the right to send a counter-notice seeking restoration of the material. Again, if the ISP has followed the statutory procedures, the ISP will be immune to damages and/or injunctive relief at the behest of the uploader. To facilitate the foregoing procedures, the ISP is required to designate an official recipient for such notices. Finally, in order to identify uploaders, the act provides an expedited procedure for subpoenas to ISPs.

12.5.2 The Impact of Internet-Specific Technologies

12.5.2.1 MP3

Recent surveys conducted for the American record industry note that an increasing number of individuals are purchasing music online (Kent D. Stuckey, “MP3: How Recording Industry Is Handling the Threat,” *Multimedia & Web Strategist* 1 [May, 1999]). Even though Internet sales are on the rise, the 15 to 19-year-old age group, which accounted for almost 25 percent of the record sales in 1989, accounted for only 15.8 percent of the sales in 1998. The Internet may be the source for both trends. Many representatives from the record industry blame the decrease in sales in the teenage market on the availability of music that has been downloaded from the Internet.

Due to the size of the computer file, until recently downloading music from the Internet was very time consuming. However, new standards that can compress music files which produce nearly CD-quality sound, are downloading quicker, more efficient, and more prevalent. MP3, which stands for MPEG-1 Audio Layer 3, is the most popular format for downloading music from the Internet.

Because music can be downloaded online regardless of whether it is copyrighted, the recording industry has fought to prevent the growth of MP3. The first of the MP3 cases, *Recording Industry Association of America [RIAA] v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (9th Cir. 1999), reached a result similar to that in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), the so-called Betamax case, which held that since “time shifting” was a primary—and legitimate—reason why consumers used VCRs, the devices were not *per se* instruments of copyright infringement. The court denied the RIAA’s

motion for preliminary injunction on the ground that the handheld RioPort player was not a “digital audio recording device” within the definition of the Audio Home Recording Act of 1992 (AHRA), 17 U.S.C. 1001 et seq., because it copied from a computer, not from a recording, and the language and legislative history of the AHRA demonstrated an intent to exclude computers from the scope of the act. “The Act does not broadly prohibit digital serial copying of copyright protected audio recordings. Instead, the Act places restrictions only upon a specific type of recording device. . . . The legislative history . . . expressly recognizes that computers (and other devices) have recording functions capable of recording digital musical recordings, and thus implicate the home taping and piracy concerns to which the Act is responsive. . . . [T]he legislative history is consistent with the Act’s plain language—computers are not digital audio recording devices.” While the court conceded that “the predominant use of MP3 is the trafficking in illicit audio recordings, presumably because MP3 files do not contain codes identifying whether the compressed audio material is copyright protected [and that] various pirate websites offer free downloads of copyrighted material, and a single pirate site on the Internet may contain thousands of pirated audio computer files,” the court stated that “the Rio’s operation is entirely consistent with the [AHRA’s] main purpose—the facilitation of personal use. As the Senate Report explains, [t]he purpose of [the Act] is to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their private, noncommercial use.” S. Rep. 102–294, at *86. The Act does so through its home taping exemption, see 17 U.S.C. 1008, which ‘protects all noncommercial copying by consumers of digital and analog musical recordings,’ H.R. Rep. 102–873(I), at *59. The Rio merely makes copies in order to render portable, or ‘space-shift,’ those files that already reside on a user’s hard drive.” This case demonstrates the limitations of a statute enacted in response to a transient technological improvement. However, the *UMG Recordings* and *A&M Records* cases illustrate (at least for now) the staying power of underlying copyright legislation of more general application.

UMG Recordings, Inc. v. MP3.Com, Inc., 92 F.Supp. 2d 349, 2000 WL 524808 (S.D.N.Y. 2000)

RAKOFF, J.

The complex marvels of cyberspatial communication may create difficult legal issues; but not in this case. Defendant’s infringement of plaintiffs’ copyrights is clear. Accordingly, on April 28, 2000, the Court granted defendant’s motion for partial summary judgment holding defendant liable for copyright infringement. This opinion will state the reasons why. . . .

Utilizing [MP3] technology, defendant MP3.com . . . launched its “My.MP3.com” service, which is advertised as permitting subscribers to store, customize and listen to the recordings contained on their CDs from any place where they have an Internet connection. To make good on this offer, defendant purchased tens of thousands of popular CDs in which plaintiffs held the copyrights, and, without authorization, copied their recordings onto its computer servers so as to be able to replay the recordings for its subscribers. Specifically, in order to first access such a recording, a subscriber to MP3.com must either “prove” that he already owns the CD version of the recording by inserting his copy of the commercial CD into his computer CD-Rom drive for a few seconds

(the “Beam-it Service”) or must purchase the CD from one of defendant’s co-operating online retailers (the “instant Listening Service”). Thereafter, however, the subscriber can access via the Internet from a computer anywhere in the world the copy of plaintiffs’ recording made by defendant. Thus, although defendant seeks to portray its service as the “functional equivalent” of storing its subscribers’ CDs, in actuality defendant is re-playing for the subscribers converted versions of the recordings it copied, without authorization, from plaintiffs’ copyrighted CDs. On its face, this makes out a presumptive case of infringement under the Copyright Act of 1976 (“Copyright Act”), 17 U.S.C. 101 et seq. See, e.g., *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, 150 F.3d 132, 132, 137 (2d Cir. 1998); *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189, 192 (2d Cir. 1985).

Defendant argues, however, that such copying is protected by the affirmative defense of “fair use.” See 17 U.S.C. 107. In analyzing such a defense, the Copyright Act specifies four factors that must be considered: “(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.” *Id.* Other relevant factors may also be considered, since fair use is an “equitable rule of reason” to be applied in light of the overall purposes of the Copyright Act. *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 448, 454 (1984); see *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 549 (1985).

Regarding the first factor—“the purpose and character of the use”—defendant does not dispute that its purpose is commercial, for while subscribers to My.MP3.com are not currently charged a fee, defendant seeks to attract a sufficiently large subscription base to draw advertising and otherwise make a profit. Consideration of the first factor, however, also involves inquiring into whether the new use essentially repeats the old or whether, instead, it “transforms” it by infusing it with new meaning, new understandings, or the like. See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994); *Castle Rock*, 150 F.3d at 142; see also Pierre N. Leval, “Toward a Fair Use Standard,” 103 Harv.L.Rev. 1105, 111 (1990). Here, although defendant recites that My.MP3.com provides a transformative “space shift” by which subscribers can enjoy the sound recordings contained on their CDs without lugging around the physical discs themselves, this is simply another way of saying that the unauthorized copies are being retransmitted in another medium—an insufficient basis for any legitimate claim of transformation. See, e.g., *Infinity Broadcast Corp. v. Kirkwood*, 150 F.3d 104, 108 (2d Cir. 1998) (rejecting the fair use defense by operator of a service that retransmitted copyrighted radio broadcasts over telephone lines); *Los Angeles News Serv. v. Reuters Television Int’l Ltd.*, 149 F.3d 987 (9th Cir. 1998) (rejecting the fair use defense where television news agencies copied copyrighted news footage and retransmitted it to news organizations), *cert. denied*, 525 U.S. 1141 (1999); see also *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 923 (2d Cir.), *cert. dismissed*, 516 U.S. 1005 (1995); *Basic Books, Inc. v. Kinko’s Graphics Corp.*, 758 F. Supp. 1522, 1530–31 (S.D.N.Y. 1991); see generally Leval, *supra*, at 1111 (repetition of copyrighted material that “merely repackages or republishes the original” is unlikely to be deemed a fair use).

Here, defendant adds no “new aesthetics, new insights and understandings”

to the original music recordings it copies, see *Castle Rock*, 150 F.3d at 142 (internal quotation marks omitted), but simply repackages those recordings to facilitate their transmission through another medium. While such services may be innovative, they are not transformative.

Regarding the second factor—“the nature of the copyrighted work”—the creative recordings here being copied are “close[] to the core of intended copyright protection,” *Campbell*, 510 U.S. at 586, and, conversely, far removed from the more factual or descriptive work more amenable to “fair use,” see *Nihon Keizai Shimbun, Inc. v. Comline Business Data, Inc.* 166 F.3d 65, 72–73 (2d Cir. 1999); see also *Castle Rock*, 150 F. 3d at 143–44.

Regarding the third factor—“the amount and substantiality of the portion [of the copyrighted work] used [by the copier] in relation to the copyrighted work as a whole”—it is undisputed that defendant copies, and replays, the entirety of the copyrighted works here in issue, thus again negating any claim of fair use. See *Infinity Broadcast*, 150 F.3d at 109 (“[T]he more of a copyrighted work that is taken, the less likely the use is to be fair . . .”); see generally Leval, *supra*, at 1122 (“[T]he larger the volume . . . of what is taken, the greater the affront to the interests of the copyright owner, and the less likely that a taking will qualify as a fair use”).

Regarding the fourth factor—“the effect of the use upon the potential market for or value of the copyrighted work”—defendant’s activities on their face invade plaintiffs’ statutory right to license their copyrighted sound recordings to others for reproduction. See 17 U.S.C. 106. Defendant, however, argues that, so far as the derivative market here involves is concerned, plaintiffs have not shown that such licensing is “traditional, reasonable, or likely to be developed.” *American Geophysical*, 60 F.3dat 930 & n. 17. Moreover, defendant argues, its activities can only enhance plaintiffs’ sales, since subscribers cannot gain access to particular recordings made available by MP3.com unless they have already “purchased” (actually or purportedly), or agreed to purchase, their own CD copies of those recordings.

Such arguments—though dressed in the garb of an expert’s “opinion” (that, on inspection, consists almost entirely of speculative and conclusory statements)—are unpersuasive. Any allegedly positive impact of defendant’s activities on plaintiff’s prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs’ copyrighted works. See *Infinity Broadcast*, 150 F.3d at 111. This would be so even if the copyright holder had not yet entered the new market in issue, for a copyright holder’s “exclusive” rights, derived from the Constitution and the Copyright Act, include the right, within broad limits, to curb the development of such a derivative market by refusing to license a copyrighted work or by doing so only on terms the copyright owner finds acceptable. See *Castle Rock*, 150 F.3d at 145–46; *Salinger v. Random House, Inc.*, 811 F.2d 90, 99 (2d Cir.), *cert. denied*, 484 U.S. 890 (1987). Here, moreover, plaintiffs have adduced substantial evidence that they have in fact taken steps to enter that market by entering into various licensing agreements. . . .

Finally, regarding defendant’s purported reliance on other factors, see *Campbell*, 510 U.S. at 577, this essentially reduces to the claim that My.MP3.com provides a useful service to consumers that, in its absence, will be served by “pirates.” Copyright, however, is not designed to afford consumer protection or convenience but, rather, to protect the copyright holders’ property interests.

Moreover, as a practical matter, plaintiffs have indicated no objection in principle to licensing their recordings to companies like MP3.com; they simply want to make sure they get the remuneration the law reserves for them as holders of copyrights on creative works. Stripped to its essence, defendant's "consumer protection" argument amounts to nothing more than a bald claim that defendant should be able to misappropriate plaintiffs' property simply because there is a consumer demand for it. This hardly appeals to the conscience of equity.

In sum, on any view, defendant's "fair use" defense is indefensible and must be denied as a matter of law. Defendant's other affirmative defenses, such as copyright misuse, abandonment, unclean hands, and estoppel, are essentially frivolous and may be disposed of briefly. While defendant contends, under the rubric of copyright misuse, that plaintiffs are misusing their "dominant market position to selectively prosecute only certain online music technology companies," . . . the admissible evidence of records shows only that plaintiffs have reasonably exercised their right to determine which infringers to pursue, and in which order to pursue them, cf. *Broadcast Music, Inc. v. Peppermint Club, Inc.*, 1985 WL 6141, at *4 (N.D. Ohio Dec. 16, 1985). The abandonment defense must also fall since defendant has failed to adduce any competent evidence of an overt act indicating that plaintiffs, who filed suit against MP3.com shortly after MP3.com launched its infringing My.MP3.com service, intentionally abandoned their copyrights. See *Richard Feiner & Co., Inc. v. H.R. Indus., Inc.*, 10 F. Supp. 2d 310, 313 (S.D.N.Y. 1998). Similarly, defendant's estoppel defense must be rejected because defendant has failed to provide any competent evidence that it relied on any action by plaintiffs with respect to defendant's My.MP3.com service. Finally, the Court must reject defendant's unclean hands defense given defendant's failure to come forth with any admissible evidence showing bad faith or misconduct on the part of plaintiffs. See generally *Dunlop-McCullen v. Local I-S, AFL-CIO-CLC*, 149 F.3d 85, 90 (2d Cir. 1998); *A. H. Emery Co. v. Marcan Prods. Corp.*, 389 F.2d 11, 18n. 4 (2d Cir.) *cert denied*, 393 U.S. 835 (1968). . . .

Accordingly, the Court, for the foregoing reasons, has determined that plaintiffs are entitled to partial summary judgment holding defendant to have infringed plaintiffs' copyrights.

NOTE

Shortly after Judge Rakoff's decision, MP3.com, Inc. settled with four of the five plaintiffs (Universal Music Group being the lone holdout) and entered into licensing negotiations, the details of which were unavailable as of this writing. On September 6, 2000, Judge Rakoff found that MP3.com, Inc. had willfully infringed Universal's copyrights, and awarded statutory damages of approximately \$118 million, or \$25 thousand per CD.

A&M Records, Inc. v. Napster, Inc.,—F.3d—(9th Cir. 2001)

BEEZER, Circuit Judge:

Plaintiffs are engaged in the commercial recording, distribution and sale of copyrighted musical compositions and sound recordings. The complaint alleges that Napster, Inc. ("Napster") is a contributory and vicarious copyright infringer. . . . The district court preliminarily enjoined Napster "from engaging in, or facilitating others in copying, downloading, uploading, transmitting, or distributing plaintiffs' copyrighted musical compositions and sound recordings, protected by either federal or state law, without express permission of the rights owner." . . . We

entered a temporary stay of the preliminary injunction pending resolution of this appeal. . . . We affirm in part, reverse in part and remand.

I

[I]t appears that Napster has designed and operates a system which permits the transmission and retention of sound recordings employing digital technology. In 1987, the Moving Picture Experts Group set a standard file format for the storage of audio recordings in a digital format called MPEG-3, abbreviated as “MP3.” Digital MP3 files are created through a process colloquially called “ripping.” Ripping software allows a computer owner to copy an audio compact disk (“audio CD”) directly onto a computer’s hard drive by compressing the audio information on the CD into the MP3 format. The MP3’s compressed format allows for rapid transmission of digital audio files from one computer to another by electronic mail or any other file transfer protocol. Napster facilitates the transmission of MP3 files between and among its users. Through a process commonly called “peer-to-peer” file sharing, Napster allows its users to: (1) make MP3 music files stored on individual computer hard drives available for copying by other Napster users; (2) search for MP3 music files stored on other users’ computers; and (3) transfer exact copies of the contents of other users’ MP3 files from one computer to another via the Internet. These functions are made possible by Napster’s MusicShare software, available free of charge from Napster’s Internet site, and Napster’s network servers and server-side software. Napster provides technical support for the indexing and searching of MP3 files, as well as for its other functions, including a “chat room,” where users can meet to discuss music, and a directory where participating artists can provide information about their music.

A. Accessing the System

In order to copy MP3 files through the Napster system, a user must first access Napster’s Internet site and download “To download means to receive information, typically a file, from another computer to yours via your modem. . . . The opposite term is upload, which means to send a file to another computer.” *United States v. Mohrbacher*, 182 F.3d 1041, 1048 (9th Cir. 1999) (quoting Robin Williams, Jargon, *An Informal Dictionary of Computer Terms* 170–71 [1993]). the MusicShare software to his individual computer. See GOTOBUTTON BM_1 <http://www.Napster.com>. Once the software is installed, the user can access the Napster system. A first-time user is required to register with the Napster system by creating a “user name” and password.

B. Listing Available Files

If a registered user wants to list available files stored in his computer’s hard drive on Napster for others to access, he must first create a “user library” directory on his computer’s hard drive. The user then saves his MP3 files in the library directory, using self-designated file names. He next must log into the Napster system using his user name and password. His MusicShare software then searches his user library and verifies that the available files are properly formatted. If in the correct MP3 format, the names of the MP3 files will be uploaded from the user’s computer to the Napster servers. The content of the MP3 files remains stored in the user’s computer.

Once uploaded to the Napster servers, the user’s MP3 file names are stored

in a server-side “library” under the user’s name and become part of a “collective directory” of files available for transfer during the time the user is logged onto the Napster system. The collective directory is fluid; it tracks users who are connected in real time, displaying only file names that are immediately accessible.

C. Searching For Available Files

Napster allows a user to locate other users’ MP3 files in two ways: through Napster’s search function and through its “hotlist” function. Software located on the Napster servers maintains a “search index” of Napster’s collective directory. To search the files available from Napster users currently connected to the network servers, the individual user accesses a form in the MusicShare software stored in his computer and enters either the name of a song or an artist as the object of the search. The form is then transmitted to a Napster server and automatically compared to the MP3 file names listed in the server’s search index. Napster’s server compiles a list of all MP3 file names pulled from the search index which include the same search terms entered on the search form and transmits the list to the searching user. The Napster server does not search the contents of any MP3 file; rather, the search is limited to “a text search of the file names indexed in a particular cluster. Those file names may contain typographical errors or otherwise inaccurate descriptions of the content of the files since they are designated by other users.” *Napster*, 114 F. Supp. 2d at 906. To use the “hotlist” function, the Napster user creates a list of other users’ names from whom he has obtained MP3 files in the past. When logged onto Napster’s servers, the system alerts the user if any user on his list (a “hotlisted user”) is also logged onto the system. If so, the user can access an index of all MP3 file names in a particular hotlisted user’s library and request a file in the library by selecting the file name. The contents of the hotlisted user’s MP3 file are not stored on the Napster system.

D. Transferring Copies of an MP3 file

To transfer a copy of the contents of a requested MP3 file, the Napster server software obtains the Internet address of the requesting user and the Internet address of the “host user” (the user with the available files). See generally *Brookfield Communications, Inc. v. West Coast Entm’t Corp.*, 174 F.3d 1036, 1044 (9th Cir.1999) (describing, in detail, the structure of the Internet). The Napster servers then communicate the host user’s Internet address to the requesting user. The requesting user’s computer uses this information to establish a connection with the host user and downloads a copy of the contents of the MP3 file from one computer to the other over the Internet, “peer-to-peer.” A downloaded MP3 file can be played directly from the user’s hard drive using Napster’s MusicShare program or other software. The file may also be transferred back onto an audio CD if the user has access to equipment designed for that purpose. In both cases, the quality of the original sound recording is slightly diminished by transfer to the MP3 format.

This architecture is described in some detail to promote an understanding of transmission mechanics as opposed to the content of the transmissions. The content is the subject of our copyright infringement analysis.

II

We review a grant or denial of a preliminary injunction for abuse of discretion. . . . Preliminary injunctive relief is available to a party who demonstrates either:

(1) a combination of probable success on the merits and the possibility of irreparable harm; or (2) that serious questions are raised and the balance of hardships tips in its favor. [Citation omitted.] “These two formulations represent two points on a sliding scale in which the required degree of irreparable harm increases as the probability of success decreases.” *Id.*

III

Plaintiffs claim Napster users are engaged in the wholesale reproduction and distribution of copyrighted works, all constituting direct infringement. Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party. *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1371 (N.D. Cal. 1995) (“[T]here can be no contributory infringement by a defendant without direct infringement by another”). It follows that Napster does not facilitate infringement of the copyright laws in the absence of direct infringement by its users. The district court agreed. We note that the district court’s conclusion that plaintiffs have presented a prima facie case of direct infringement by Napster users is not presently appealed by Napster. . . . Plaintiffs have sufficiently demonstrated ownership [of the material copied]. The record supports the district court’s determination that “as much as eighty-seven percent of the files available on Napster may be copyrighted and more than seventy percent may be owned or administered by plaintiffs [and] that a majority of Napster users use the service to download and upload copyrighted music. . . . And by doing that, it constitutes—the uses constitute direct infringement of plaintiffs’ musical compositions, recordings.” The district court also noted that “it is pretty much acknowledged . . . by Napster that this is infringement.” *Id.* We agree that plaintiffs have shown that Napster users infringe at least two of the copyright holders’ exclusive rights: the rights of reproduction, § 106(1); and distribution, § 106(3). Napster users who upload file names to the search index for others to copy violate plaintiffs’ distribution rights. Napster users who download files containing copyrighted music violate plaintiffs’ reproduction rights. . . .

B. Fair Use

Napster contends that its users do not directly infringe plaintiffs’ copyrights because the users are engaged in fair use of the material [within the meaning of 17 U.S.C. § 107, an argument rejected by the District Court, with which the Ninth Circuit agreed.]

1. Purpose and Character of the Use

This factor focuses on whether the new work merely replaces the object of the original creation or instead adds a further purpose or different character. In other words, this factor asks “whether and to what extent the new work is ‘transformative.’” See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994). The district court first concluded that downloading MP3 files does not transform the copyrighted work. . . . This conclusion is supportable. Courts have been reluctant to find fair use when an original work is merely retransmitted in a different medium. See, e.g., *Infinity Broadcast Corp. v. Kirkwood*, 150 F.3d 104, 108 (2d Cir. 1994) (concluding that retransmission of radio broadcast over telephone lines is not transformative); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 351 (S.D.N.Y.) (finding that reproduction of audio CD into MP3 format does

not “transform” the work), certification denied, 2000 WL 710056 (S.D.N.Y. June 1, 2000) (“Defendant’s copyright infringement was clear, and the mere fact that it was clothed in the exotic webbing of the Internet does not disguise its illegality”). This “purpose and character” element also requires the district court to determine whether the allegedly infringing use is commercial or noncommercial. See *Campbell*, 510 U.S. at 584-85. A commercial use weighs against a finding of fair use but is not conclusive on the issue. *Id.* The district court determined that Napster users engage in commercial use of the copyrighted materials largely because [as Judge Patel put it] (1) “a host user sending a file cannot be said to engage in a personal use when distributing that file to an anonymous requester” and (2) “Napster users get for free something they would ordinarily have to buy.” The district court’s findings are not clearly erroneous. Direct economic benefit is not required to demonstrate a commercial use. Rather, repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute a commercial use. See *Worldwide Church of God v. Philadelphia Church of God*, 227 F.3d 1110, 1118 (9th Cir. 2000) (stating that church that copied religious text for its members “unquestionably profit[ed]” from the unauthorized “distribution and use of [the text] without having to account to the copyright holder”); *American Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 922 (2d Cir. 1994) (finding that researchers at for-profit laboratory gained indirect economic advantage by photocopying copyrighted scholarly articles). In the record before us, commercial use is demonstrated by a showing that repeated and exploitative unauthorized copies of copyrighted works were made to save the expense of purchasing authorized copies. See *Worldwide Church*, 227 F.3d at 1117–18; *Sega Enters. Ltd. v. MAPHIA*, 857 F. Supp. 679, 687 (N.D. Cal. 1994) (finding commercial use when individuals downloaded copies of video games “to avoid having to buy video game cartridges”); see also *American Geophysical*, 60 F.3d at 922. Plaintiffs made such a showing before the district court. Napster counters that even if certain users engage in commercial use by downloading instead of purchasing the music, space-shifting and sampling are nevertheless noncommercial in nature. We address this contention in our discussion of these specific uses, *infra*. We also note that the definition of a financially motivated transaction for the purposes of criminal copyright actions includes trading infringing copies of a work for other items, “including the receipt of other copyrighted works.” See No Electronic Theft Act (“NET Act”), Pub. L. No. 105–147, 18 U.S.C. § 101 (defining “Financial Gain”).

2. *The Nature of the Use*

Works that are creative in nature are “closer to the core of intended copyright protection” than are more fact-based works. See *Campbell*, 510 U.S. at 586. The district court determined that plaintiffs’ “copyrighted musical compositions and sound recordings are creative in nature . . . which cuts against a finding of fair use under the second factor.” *Napster*, 114 F. Supp. 2d at 913. We find no error in the district court’s conclusion.

3. *The Portion Used*

“While ‘wholesale copying does not preclude fair use per se,’ copying an entire work ‘militates against a finding of fair use.’” *Worldwide Church*, 227 F.3d at 1118 (quoting *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 796 F.2d 1148, 1155 [9th Cir. 1986]). The district court determined that Napster users engage

in “wholesale copying” of copyrighted work because file transfer necessarily “involves copying the entirety of the copyrighted work.” *Napster*, 114 F. Supp. 2d at 913. We agree. We note, however, that under certain circumstances, a court will conclude that a use is fair even when the protected work is copied in its entirety. See, e.g., *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 449–50 (1984) (acknowledging that fair use of time-shifting necessarily involved making a full copy of a protected work).

4. *Effect of Use on Market*

“Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied.” *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566–67 (1985). “[T]he importance of this [fourth] factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors.” *Campbell*, 510 U.S. at 591 n.21. The proof required to demonstrate present or future market harm varies with the purpose and character of the use:

A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work. . . . If the intended use is for commercial gain, that likelihood [of market harm] may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.

Sony, 464 U.S. at 451.

Addressing this factor, the district court concluded [after reviewing extensive evidence proffered by both sides] that Napster harms the market in “at least” two ways: it reduces audio CD sales among college students and it “raises barriers to plaintiffs’ entry into the market for the digital downloading of music.” . . . Defendant has failed to show any basis for disturbing the district court’s findings. We, therefore, conclude that the district court made sound findings related to Napster’s deleterious effect on the present and future digital download market.

Moreover, [even if we assume] lack of harm to an established market[, this] cannot deprive the copyright holder of the right to develop alternative markets for the works. See *L.A. Times v. Free Republic*, 54 U.S.P.Q.2d 1453, 1469–71 (C.D. Cal. 2000) (stating that online market for plaintiff newspapers’ articles was harmed because plaintiffs demonstrated that “[defendants] are attempting to exploit the market for viewing their articles online”); see also *UMG Recordings*, 92 F. Supp. 2d at 352 (“Any allegedly positive impact of defendant’s activities on plaintiffs’ prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs’ copyrighted works.”). Here, similar to *L.A. Times* and *UMG Recordings*, the record supports the district court’s finding that the “record company plaintiffs have already expended considerable funds and effort to commence Internet sales and licensing for digital downloads.” . . . Having digital downloads available for free on the Napster system necessarily harms the copyright holders’ attempts to charge for the same downloads. Judge Patel did not abuse her discretion in reaching the above fair use conclusions, nor were the findings of fact with respect to fair use considerations clearly erroneous. . . .

5. *Identified Uses*

Napster maintains that its identified uses of sampling and space-shifting were wrongly excluded as fair uses by the district court.

a. *Sampling*

Napster contends that its users download MP3 files to “sample” the music in order to decide whether to purchase the recording. Napster argues that the district court: (1) erred in concluding that sampling is a commercial use because it conflated a noncommercial use with a personal use; (2) erred in determining that sampling adversely affects the market for plaintiffs’ copyrighted music, a requirement if the use is noncommercial; and (3) erroneously concluded that sampling is not a fair use because it determined that samplers may also engage in other infringing activity.

The district court determined that sampling remains a commercial use even if some users eventually purchase the music. We find no error in the district court’s determination. Plaintiffs have established that they are likely to succeed in proving that even authorized temporary downloading of individual songs for sampling purposes is commercial in nature. . . . The record supports a finding that free promotional downloads are highly regulated by the record company plaintiffs and that the companies collect royalties for song samples available on retail Internet sites. . . . [T]he free downloads provided by the record companies consist of thirty-to-sixty second samples or are full songs programmed to “time out,” that is, exist only for a short time on the downloader’s computer. . . . In comparison, Napster users download a full, free and permanent copy of the recording. . . . The determination by the district court as to the commercial purpose and character of sampling is not clearly erroneous. The district court further found that both the market for audio CDs and market for online distribution are adversely affected by Napster’s service. . . . [T]he court did not abuse its discretion when it found that, overall, Napster has an adverse impact on the audio CD and digital download markets. Contrary to Napster’s assertion that the district court failed to specifically address the market impact of sampling, the district court determined that “[e]ven if the type of sampling supposedly done on Napster were a non-commercial use, plaintiffs have demonstrated a substantial likelihood that it would adversely affect the potential market for their copyrighted works if it became widespread.”

. . . The record supports the district court’s preliminary determinations that: (1) the more music that sampling users download, the less likely they are to eventually purchase the recordings on audio CD; and (2) even if the audio CD market is not harmed, Napster has adverse effects on the developing digital download market. Napster further argues that the district court erred in rejecting its evidence that the users’ downloading of “samples” increases or tends to increase audio CD sales. The district court, however, correctly noted that “any potential enhancement of plaintiffs’ sales . . . would not tip the fair use analysis conclusively in favor of defendant.” . . . We agree that increased sales of copyrighted material attributable to unauthorized use should not deprive the copyright holder of the right to license the material. See *Campbell*, 510 U.S. at 591 n.21 (“Even favorable evidence, without more, is no guarantee of fairness. Judge Leval gives the example of the film producer’s appropriation of a composer’s previously unknown song that turns the song into a commercial success; the boon

to the song does not make the film's simple copying fair."); see also *L.A. Times*, 54 U.S.P.Q.2d at 1471–72. Nor does positive impact in one market, here the audio CD market, deprive the copyright holder of the right to develop identified alternative markets, here the digital download market. See *id.* at 1469–71.

We find no error in the district court's factual findings or abuse of discretion in the court's conclusion that plaintiffs will likely prevail in establishing that sampling does not constitute a fair use.

b. Space-Shifting

Napster also maintains that space-shifting is a fair use. Space-shifting occurs when a Napster user downloads MP3 music files in order to listen to music he already owns on audio CD. See *id.* at 915–16. Napster asserts that we have already held that space-shifting of musical compositions and sound recordings is a fair use. See *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999) ("Rio [a portable MP3 player] merely makes copies in order to render portable, or 'space-shift,' those files that already reside on a user's hard drive. . . .

Such copying is a paradigmatic noncommercial personal use."). See also generally *Sony*, 464 U.S. at 423 (holding that "time-shifting," where a video tape recorder owner records a television show for later viewing, is a fair use). We conclude that the district court did not err when it refused to apply the "shifting" analyses of *Sony* and *Diamond*. Both *Diamond* and *Sony* are inapposite because the methods of shifting in these cases did not also simultaneously involve distribution of the copyrighted material to the general public; the time or space-shifting of copyrighted material exposed the material only to the original user. In *Diamond*, for example, the copyrighted music was transferred from the user's computer hard drive to the user's portable MP3 player. So too *Sony*, where "the majority of VCR purchasers . . . did not distribute taped television broadcasts, but merely enjoyed them at home." *Napster*, 114 F. Supp. 2d at 913. Conversely, it is obvious that once a user lists a copy of music he already owns on the Napster system in order to access the music from another location, the song becomes "available to millions of other individuals," not just the original CD owner. See *UMG Recordings*, 92 F. Supp. 2d at 351–52 (finding space-shifting of MP3 files not a fair use even when previous ownership is demonstrated before a download is allowed); cf. *Religious Tech. Ctr. v. Lerma*, No. 95–1107A, 1996 WL 633131, at *6 (E.D. Va. Oct. 4, 1996) (suggesting that storing copyrighted material on computer disk for later review is not a fair use).

c. Other Uses

Permissive reproduction by either independent or established artists is the final fair use claim made by Napster. The district court noted that plaintiffs did not seek to enjoin this and any other noninfringing use of the Napster system, including: chat rooms, message boards and Napster's New Artist Program. *Napster*, . . . Plaintiffs do not challenge these uses on appeal.

We find no error in the district court's determination that plaintiffs will likely succeed in establishing that Napster users do not have a fair use defense. Accordingly, we next address whether Napster is secondarily liable for the direct infringement under two doctrines of copyright law: contributory copyright infringement and vicarious copyright infringement.

IV

We first address plaintiffs' claim that Napster is liable for contributory copyright infringement. Traditionally, "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." [Citations omitted.] The district court determined that plaintiffs in all likelihood would establish Napster's liability as a contributory infringer. The district court did not err; Napster, by its conduct, knowingly encourages and assists the infringement of plaintiffs' copyrights.

A. Knowledge

Contributory liability requires that the secondary infringer "know or have reason to know" of direct infringement. [Citations omitted.] The district court found that Napster had both actual and constructive knowledge that its users exchanged copyrighted music. The district court also concluded that the law does not require knowledge of "specific acts of infringement" and rejected Napster's contention that because the company cannot distinguish infringing from noninfringing files, it does not "know" of the direct infringement. . . . It is apparent from the record that Napster has knowledge, both actual and constructive. The district court found actual knowledge because: (1) a document authored by Napster co-founder Sean Parker mentioned "the need to remain ignorant of users' real names and IP addresses 'since they are exchanging pirated music'"; and (2) the Recording Industry Association of America ("RIAA") informed Napster of more than 12,000 infringing files, some of which are still available. . . . The district court found constructive knowledge because: (a) Napster executives have recording industry experience; (b) they have enforced intellectual property rights in other instances; (c) Napster executives have downloaded copyrighted songs from the system; and (d) they have promoted the site with "screen shots listing infringing files." *Id.* at 919. of direct infringement. Napster claims that it is nevertheless protected from contributory liability by the teaching of *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). We disagree. We observe that Napster's actual, specific knowledge of direct infringement renders Sony's holding of limited assistance to Napster. We are compelled to make a clear distinction between the architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system. The Sony Court refused to hold the manufacturer and retailers of video tape recorders liable for contributory infringement despite evidence that such machines could be and were used to infringe plaintiffs' copyrighted television shows. Sony stated that if liability "is to be imposed on petitioners in this case, it must rest on the fact that they have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material." *Id.* at 439. The Sony Court declined to impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and "substantial noninfringing uses." *Id.* at 442 (adopting a modified "staple article of commerce" doctrine from patent law). See also *Universal City Studios, Inc. v. Sony Corp.*, 480 F. Supp. 429, 459 (C.D. Cal. 1979) ("This court agrees with defendants that their knowledge was insufficient to make them contributory infringers."), *rev'd*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984); Alfred C. Yen, Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment, 88 Geo. L.J. 1833, 1874

& 1893 n.210 (2000) (suggesting that, after Sony, most Internet service providers lack “the requisite level of knowledge” for the imposition of contributory liability). We are bound to follow Sony, and will not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs’ copyrights. See 464 U.S. at 436 (rejecting argument that merely supplying the “‘means’ to accomplish an infringing activity” leads to imposition of liability). We depart from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant noninfringing uses. See *Napster*, 114 F. Supp. 2d at 916, 917–18. The district court improperly confined the use analysis to current uses, ignoring the system’s capabilities. See generally *Sony*, 464 U.S. at 442–43 (framing inquiry as whether the video tape recorder is “capable of commercially significant noninfringing uses”) (emphasis added). Consequently, the district court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use. See generally *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 264–67 (5th Cir. 1997) (single noninfringing use implicated Sony). Nonetheless, whether we might arrive at a different result is not the issue here. See *Sports Form, Inc. v. United Press Int’l, Inc.*, 686 F.2d 750, 752 (9th Cir. 1982). The instant appeal occurs at an early point in the proceedings and “the fully developed factual record may be materially different from that initially before the district court . . .” *Id.* at 753. Regardless of the number of Napster’s infringing versus noninfringing uses, the evidentiary record here supported the district court’s finding that plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users’ infringement of plaintiffs’ copyrights.

This analysis is similar to that of *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, which suggests that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement. 907 F. Supp. at 1371. Netcom considered the potential contributory copyright liability of a computer bulletin board operator whose system supported the posting of infringing material. *Id.* at 1374. The court, in denying Netcom’s motion for summary judgment of noninfringement and plaintiff’s motion for judgment on the pleadings, found that a disputed issue of fact existed as to whether the operator had sufficient knowledge of infringing activity. *Id.* at 1374–75.

The court determined that for the operator to have sufficient knowledge, the copyright holder must “provide the necessary documentation to show there is likely infringement.” 907 F. Supp. at 1374. [Additional citation omitted.] If such documentation was provided, the court reasoned that Netcom would be liable for contributory infringement because its failure to remove the material “and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation” in distribution of copyrighted material. *Id.*

We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement. See *Netcom*, 907 F. Supp. at 1374. Conversely, absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material. See *Sony*, 464 U.S. at 436, 442–43. To enjoin simply because a computer network allows for infringing use would, in our opinion, violate Sony and potentially restrict activity unrelated to infringing use. We nev-

ertheless conclude that sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system. . . . The record supports the district court's finding that Napster has actual knowledge that specific infringing material is available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material. See *Napster*, 114 F. Supp. 2d at 918, 920–21. As stated by the district court:

Plaintiff[s] . . . demonstrate that defendant had actual notice of direct infringement because the RIAA informed it of more than 12,000 infringing files. . . . Although Napster, Inc. purportedly terminated the users offering these files, the songs are still available using the Napster service, as are the copyrighted works which the record company plaintiffs identified. . . .

114 F. Supp. 2d at 918.

B. Material Contribution

Under the facts as found by the district court, Napster materially contributes to the infringing activity. Relying on *Fonovisa, Inc. v. Cherry Auction, Inc.* 76 F.3d 259 (9th Cir. 1996)] the district court concluded that “[without the support services defendant provides, Napster users could not find and download the music they want with the ease of which defendant boasts.” *Napster*, 114 F. Supp. 2d at 919–20 (“Napster is an integrated service designed to enable users to locate and download MP3 music files.”). We agree that Napster provides “the site and facilities” for direct infringement. See *Fonovisa*, 76 F.3d at 264; cf. *Netcom*, 907 F. Supp. at 1372 (“Netcom will be liable for contributory infringement since its failure to cancel [a user’s] infringing message and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation.”). The district court correctly applied the reasoning in *Fonovisa*, and properly found that Napster materially contributes to direct infringement. We affirm the district court’s conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the contributory copyright infringement claim. We will address the scope of the injunction in part VIII of this opinion.

V

We turn to the question whether Napster engages in vicarious copyright infringement. Vicarious copyright liability is an “outgrowth” of respondeat superior. *Fonovisa*, 76 F.3d at 262. In the context of copyright law, vicarious liability extends beyond an employer/employee relationship to cases in which a defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.” *Id.* [Additional citations omitted.] . . . Before moving into this discussion, we note that Sony’s “staple article of commerce” analysis has no application to Napster’s potential liability for vicarious copyright infringement. See *Sony*, 464 U.S. at 434–435 [Additional citation omitted.] . . . The issues of Sony’s liability under the “doctrines of ‘direct infringement’ and ‘vicarious liability’” were not before the Supreme Court, although the Court recognized that the “lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn.” *Id.* at 435 n.17. Consequently, when the Sony Court used the term “vicarious liability,” it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement. *Id.* at 435 . . .

A. *Financial Benefit*

The district court determined that plaintiffs had demonstrated they would likely succeed in establishing that Napster has a direct financial interest in the infringing activity. . . . We agree. Financial benefit exists where the availability of infringing material “acts as a ‘draw’ for customers.” *Fonovisa*, 76 F.3d at 263–64 (stating that financial benefit may be shown “where infringing performances enhance the attractiveness of a venue”). Ample evidence supports the district court’s finding that Napster’s future revenue is directly dependent upon “increases in userbase.” More users register with the Napster system as the “quality and quantity of available music increases.” 114 F. Supp. 2d at 902. We conclude that the district court did not err in determining that Napster financially benefits from the availability of protected works on its system.

B. *Supervision*

The district court determined that Napster has the right and ability to supervise its users’ conduct. Napster . . . We agree in part. The ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise. See *Fonovisa*, 76 F.3d at 262 (“Cherry Auction had the right to terminate vendors for any reason whatsoever and through that right had the ability to control the activities of vendors on the premises.”). [Additional citation omitted.] Here, plaintiffs have demonstrated that Napster retains the right to control access to its system. Napster has an express reservation of rights policy, stating on its website that it expressly reserves the “right to refuse service and terminate accounts in [its] discretion, including, but not limited to, if Napster believes that user conduct violates applicable law . . . or for any reason in Napster’s sole discretion, with or without cause.” To escape imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent. Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability. See, e.g., *Fonovisa*, 76 F.3d at 261. [Additional citations omitted.] The district court correctly determined that Napster had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material. The district court, however, failed to recognize that the boundaries of the premises that Napster “controls and patrols” are limited. See, e.g., *Fonovisa*, 76 F.2d at 262–63 (in addition to having the right to exclude vendors, defendant “controlled and patrolled” the premises); see also *Polygram*, 855 F. Supp. at 1328–29 (in addition to having the contractual right to remove exhibitors, trade show operator reserved the right to police during the show and had its “employees walk the aisles to ensure ‘rules compliance’”). Put differently, Napster’s reserved “right and ability” to police is cabined by the system’s current architecture. . . . [T]he Napster system does not “read” the content of indexed files, other than to check that they are in the proper MP3 format. Napster, however, has the ability to locate infringing material listed on its search indices, and the right to terminate users’ access to the system. The file name indices, therefore, are within the “premises” that Napster has the ability to police. We recognize that the files are user-named and may not match copyrighted material exactly (for example, the artist or song could be spelled wrong). For Napster to function effectively, however, file names must reasonably or roughly correspond to the material contained in the files, otherwise no user could ever locate any desired music. As a practical matter, Napster, its users and the record company plaintiffs

have equal access to infringing material by employing Napster's "search function." Our review of the record requires us to accept the district court's conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the vicarious copyright infringement claim. Napster's failure to police the system's "premises," combined with a showing that Napster financially benefits from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability. We address the scope of the injunction in part VIII of this opinion.

VI

We next address whether Napster has asserted defenses which would preclude the entry of a preliminary injunction. Napster alleges that two statutes insulate it from liability. First, Napster asserts that its users engage in actions protected by § 1008 of the Audio Home Recording Act of 1992, 17 U.S.C. § 1008. Second, Napster argues that its liability for contributory and vicarious infringement is limited by the Digital Millennium Copyright Act, 17 U.S.C. § 512. We address the application of each statute in turn.

A. *Audio Home Recording Act*

The statute states in part:

No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.

17 U.S.C. § 1008. Napster contends that MP3 file exchange is the type of "non-commercial use" protected from infringement actions by the statute. Napster asserts it cannot be secondarily liable for users' nonactionable exchange of copyrighted musical recordings. The district court rejected Napster's argument, stating that the Audio Home Recording Act is "irrelevant" to the action because: (1) plaintiffs did not bring claims under the Audio Home Recording Act; and (2) the Audio Home Recording Act does not cover the downloading of MP3 files. . . . We agree with the district court that the Audio Home Recording Act does not cover the downloading of MP3 files to computer hard drives. First, "[u]nder the plain meaning of the Act's definition of digital audio recording devices, computers (and their hard drives) are not digital audio recording devices because their 'primary purpose' is not to make digital audio copied recordings." *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1078 (9th Cir. 1999). Second, notwithstanding Napster's claim that computers are "digital audio recording devices," computers do not make "digital music recordings" as defined by the Audio Home Recording Act. *Id.* at 1077 (citing S. Rep. 102-294) ("There are simply no grounds in either the plain language of the definition or in the legislative history for interpreting the term 'digital musical recording' to include songs fixed on computer hard drives.").

B. *Digital Millennium Copyright Act*

Napster also interposes a statutory limitation on liability by asserting the protections of the "safe harbor" from copyright infringement suits for "Internet service

providers” contained in the Digital Millennium Copyright Act, 17 U.S.C. § 512. . . . The district court did not give this statutory limitation any weight favoring a denial of temporary injunctive relief. The court concluded that Napster “has failed to persuade this court that subsection 512(d) shelters contributory infringers.” . . . We need not accept a blanket conclusion that § 512 of the Digital Millennium Copyright Act will never protect secondary infringers. . . . We do not agree that Napster’s potential liability for contributory and vicarious infringement renders the Digital Millennium Copyright Act inapplicable per se. We instead recognize that this issue will be more fully developed at trial. At this stage of the litigation, plaintiffs raise serious questions regarding Napster’s ability to obtain shelter under § 512, and plaintiffs also demonstrate that the balance of hardships tips in their favor. . . . Plaintiffs have raised and continue to raise significant questions under this statute, including: (1) whether Napster is an Internet service provider as defined by 17 U.S.C. § 512(d); (2) whether copyright owners must give a service provider “official” notice of infringing activity in order for it to have knowledge or awareness of infringing activity on its system; and (3) whether Napster complies with § 512(i), which requires a service provider to timely establish a detailed copyright compliance policy. See *A&M Records, Inc. v. Napster, Inc.*, No. 99–05183, 2000 WL 573136 (N.D. Cal. May 12, 2000) (denying summary judgment to Napster under a different subsection of the Digital Millennium Copyright Act, § 512(a)). The district court considered ample evidence to support its determination that the balance of hardships tips in plaintiffs’ favor: Any destruction of Napster, Inc. by a preliminary injunction is speculative compared to the statistical evidence of massive, unauthorized downloading and uploading of plaintiffs’ copyrighted works—as many as 10,000 files per second by defendant’s own admission. . . . The court has every reason to believe that, without a preliminary injunction, these numbers will mushroom as Napster users, and newcomers attracted by the publicity, scramble to obtain as much free music as possible before trial.

VII

Napster contends that even if the district court’s preliminary determinations that it is liable for facilitating copyright infringement are correct, the district court improperly rejected valid affirmative defenses of waiver, implied license and copyright misuse. We address the defenses in turn.

A. Waiver

“Waiver is the intentional relinquishment of a known right with knowledge of its existence and the intent to relinquish it.” [Citations omitted.] Napster argues that the district court erred in finding that plaintiffs knowingly provided consumers with technology designed to copy and distribute MP3 files over the Internet and, thus, waived any legal authority to exercise exclusive control over creation and distribution of MP3 files. The district court, however, was not convinced “that the record companies created the monster that is now devouring their intellectual property rights.” *Napster*, 114 F. Supp. 2d at 924. We find no error in the district court’s finding that “in hastening the proliferation of MP3 files, plaintiffs did [nothing] more than seek partners for their commercial downloading ventures and develop music players for files they planned to sell over the Internet.” *Id.* Napster additionally asserts that the district court improperly refused to allow additional discovery into affirmative defenses and also erroneously failed

to hold an evidentiary hearing. . . . We conclude that the court did not abuse its discretion in denying further discovery and refusing to conduct an evidentiary hearing.

B. Implied License

Napster also argues that plaintiffs granted the company an implied license by encouraging MP3 file exchange over the Internet. Courts have found implied licenses only in “narrow” circumstances where one party “created a work at [the other’s] request and handed it over, intending that [the other] copy and distribute it.” *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms., Inc.*, 211 F.3d 21, 25 (2d Cir. 2000) (quoting *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 558 [9th Cir. 1990]), *cert. denied*, 121 S. Ct. 173 (2000). The district court observed that no evidence exists to support this defense: “indeed, the RIAA gave defendant express notice that it objected to the availability of its members’ copyrighted music on Napster.” *Napster*, 114 F. Supp. 2d at 924-25. The record supports this conclusion.

C. Misuse

The defense of copyright misuse forbids a copyright holder from “secur[ing] an exclusive right or limited monopoly not granted by the Copyright Office.” [Citations omitted.] Napster alleges that online distribution is not within the copyright monopoly. According to Napster, plaintiffs have colluded to “use their copyrights to extend their control to online distributions.” We find no error in the district court’s preliminary rejection of this affirmative defense. The misuse defense prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly. [Citations omitted.] The district court correctly stated that “most of the cases” that recognize the affirmative defense of copyright misuse involve unduly restrictive licensing schemes. See *Napster*, 114 F. Supp. 2d at 923 [Additional citations omitted.] . . . There is no evidence here that plaintiffs seek to control areas outside of their grant of monopoly. Rather, plaintiffs seek to control reproduction and distribution of their copyrighted works, exclusive rights of copyright holders. 17 U.S.C. § 106 [Additional citation omitted.] . . . That the copyrighted works are transmitted in another medium—MP3 format rather than audio CD—has no bearing on our analysis. . . .

VIII

The district court correctly recognized that a preliminary injunction against Napster’s participation in copyright infringement is not only warranted but required. We believe, however, that the scope of the injunction needs modification in light of our opinion. Specifically, we reiterate that contributory liability may potentially be imposed only to the extent that Napster: (1) receives reasonable knowledge of specific infringing files with copyrighted musical compositions and sound recordings; (2) knows or should know that such files are available on the Napster system; and (3) fails to act to prevent viral distribution of the works. [Citation omitted.] The mere existence of the Napster system, absent actual notice and Napster’s demonstrated failure to remove the offending material, is insufficient to impose contributory liability. See *Sony*, 464 U.S. at 442-43. Conversely, Napster may be vicariously liable when it fails to affirmatively use its ability to patrol its system and preclude access to potentially infringing files

listed in its search index. Napster has both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files. The preliminary injunction which we stayed is overbroad because it places on Napster the entire burden of ensuring that no “copying, downloading, uploading, transmitting, or distributing” of plaintiffs’ works occur on the system. As stated, we place the burden on plaintiffs to provide notice to Napster of copyrighted works and files containing such works available on the Napster system before Napster has the duty to disable access to the offending content. Napster, however, also bears the burden of policing the system within the limits of the system. Here, we recognize that this is not an exact science in that the files are user named. In crafting the injunction on remand, the district court should recognize that Napster’s system does not currently appear to allow Napster access to users’ MP3 files. Based on our decision to remand, Napster’s additional arguments on appeal going to the scope of the injunction need not be addressed. We, however, briefly address Napster’s First Amendment argument so that it is not reasserted on remand. Napster contends that the present injunction violates the First Amendment because it is broader than necessary. The company asserts two distinct free speech rights: (1) its right to publish a “directory” (here, the search index) and (2) its users’ right to exchange information. We note that First Amendment concerns in copyright are allayed by the presence of the fair use doctrine. See 17 U.S.C. § 107 [Additional citations omitted.] . . . There was a preliminary determination here that Napster users are not fair users. Uses of copyrighted material that are not fair uses are rightfully enjoined. See *Dr. Seuss Enters. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1403 (9th Cir. 1997) (rejecting defendants’ claim that injunction would constitute a prior restraint in violation of the First Amendment).

IX

[The Court then rejected Napster’s argument that the plaintiffs should have been required to post a higher bond, as well as Napster’s argument that] the district court should have imposed a monetary penalty by way of a compulsory royalty in place of an injunction. . . . Napster tells us that “where great public injury would be worked by an injunction, the courts might . . . award damages or a continuing royalty instead of an injunction in such special circumstances.” *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) (quoting 3 Melville B. Nimmer & David Nimmer, *Nimmer On Copyright* § 14.06[B] (1988)), *aff’d*, 495 U.S. 207 (1990). We are at a total loss to find any “special circumstances” simply because this case requires us to apply well-established doctrines of copyright law to a new technology. Neither do we agree with Napster that an injunction would cause “great public injury.” Further, we narrowly construe any suggestion that compulsory royalties are appropriate in this context because Congress has arguably limited the application of compulsory royalties to specific circumstances, none of which are present here. See 17 U.S.C. § 115. The Copyright Act provides for various sanctions for infringers. See, *e.g.*, 17 U.S.C. §§ 502 (injunctions); 504 (damages); and 506 (criminal penalties); see also 18 U.S.C. § 2319A (criminal penalties for the unauthorized fixation of and trafficking in sound recordings and music videos of live musical performances). These statutory sanctions represent a more than adequate legislative solution to the problem created by copyright infringement. Imposing a compulsory royalty payment schedule would give Napster an “easy out” of this case. If such royalties were imposed, Napster would

avoid penalties for any future violation of an injunction, statutory copyright damages and any possible criminal penalties for continuing infringement. The royalty structure would also grant Napster the luxury of either choosing to continue and pay royalties or shut down. On the other hand, the wronged parties would be forced to do business with a company that profits from the wrongful use of intellectual properties. Plaintiffs would lose the power to control their intellectual property: they could not make a business decision not to license their property to Napster, and, in the event they planned to do business with Napster, compulsory royalties would take away the copyright holders' ability to negotiate the terms of any contractual arrangement.

X

[T]he preliminary injunction . . . shall remain stayed until it is modified by the district court to conform to the requirements of this opinion. [However, e]ven though the preliminary injunction requires modification, appellees have substantially and primarily prevailed on appeal. Appellees shall recover their statutory costs on appeal. See Fed. R. App. P. 39(a)(4) (“[i]f a judgment is affirmed in part, reversed in part, modified, or vacated, costs are taxed only as the court orders.”).

AFFIRMED IN PART, REVERSED IN PART AND REMANDED.

12.5.2.2 *DeCSS*

In an effort to protect the content of films distributed on digital videodisc (DVD), the Motion Picture Association of America (MPAA) and the consumer electronics industry developed a content scrambling system (CSS) code which was inserted into commercially distributed DVDs. However, in January 2000, a Norwegian teenager (under criminal charges at the time of this writing) succeeded in hacking the code (thereby creating the DeCSS).

Two civil actions have been brought by the CSS control group, one in the Southern District of New York for copyright infringement and one in the California Superior Court for Santa Clara County for theft of trade secrets. The trial judges in both cases have issued preliminary injunctions against further distribution of the DeCSS code, and the defendants (represented in each case by the Electronic Frontier Foundation) are appealing. The defense theory in each case is that DeCSS simply permits computer users who employ Linux software to access DVDs they have bought legitimately. See *Universal City Studios, Inc. v. Reimerdes*, 82 F.Supp. 2d 211 (S.D.N.Y. 2000) and *DVD Copy Control Ass'n, Inc. v. McLaughlin*, 2000 WL 48512 (Superior Court, Santa Clara County 2000).

12.5.2.3 *iCraveTV*

On February 8, 2000, Chief Judge Donald E. Ziegler granted a preliminary injunction under the DMCA in favor of a number of members of the MPAA against a Canadian group which was “streaming” content from terrestrial broadcast channels (five of which were based in the United States) over the Internet *National Football League v. TV RadioNow Corp.*, 53 U.S.P.Q. 2d 1831, 2000 WL 255989 (W.D.P.A. 2000). This decision was promptly criticized by Harvard Law professor Lawrence Lessig, who characterized MPAA executive director Jack Valenti as “quickly becoming the Internet’s Kenneth Starr” (Lawrence Lessig, “Cyberspace Prosecutor,” *The Standard*, Feb. 21, 2000). Although Lessig states that “iCrave took steps to block foreigners from accessing free Canadian TV,”

the complaint indicates that while iCrave did nominally limit access to those utilizing Canadian telephone area codes, iCrave supplied such an area code as well as a “cookie” which, when installed, would automatically bypass the security system. Warnings about copyright infringement are a hallmark of services such as iCrave and Napster (see above); the copyright industries generally regard such disclaimers as the equivalent of “a nod and a wink.” Although it may well be that some future action of this sort will work its way to the appellate level, the iCraveTV case will not: It was settled shortly after the district court’s decision, with iCraveTV agreeing to take steps to block access to its service from the United States.

12.6 TRADEMARK INFRINGEMENT

12.6.1 Internet Domain Names and Metatags

Frequently, businesses establish websites as a part of their marketing plans and attempt to incorporate their trademarks into their Internet domain names. The Internet, however, is without geographic boundaries. Legal difficulties may arise when two companies who did not compete previously in the same geographic market are now battling for the same Internet domain name or when an individual registers a prime domain name (which may include the trademark of a business) before the business has the opportunity to do so. The following case demonstrates when courts deem such activities to be acceptable business practices and when such activities subject one to claims of trademark infringement or dilution.

**Brookfield Communications, Inc. v. West Coast Entertainment Corp.,
174 F.3d 1036 (9th Cir. 1999).**

O’SANNLAIN, CIRCUIT JUDGE

We must venture into cyberspace to determine whether federal trademark and unfair competition laws prohibit a video rental store chain from using an entertainment-industry information provider’s trademark in the domain name of its web site and in its web site’s metatags.

I

[In 1993, Brookfield, a manufacturer and distributor of software for entertainment industry professionals, broadened its operations to include consumer software marketed under the name “MovieBuff.” This consisted of] comprehensive, searchable, entertainment-industry databases and related software applications containing information such as movie credits, box office receipts, films in development, film release schedules, entertainment news, and listings of executives, agents, actors, and directors. [However, when Brookfield attempted to register the domain name “moviebuff.com,” the registrar informed Brookfield that the requested domain name had already been registered by West Coast. In 1997, Brookfield obtained a federal trademark on “MovieBuff.”] In 1998, Brookfield learned that West Coast—one of the nation’s largest video rental store chains with over 500 stores—intended to launch a web site at “moviebuff.com” containing, *inter alia*, a searchable entertainment database similar to “MovieBuff.” West Coast had registered “moviebuff.com” with Network Solutions [then the

exclusive registrar of domain names] on February 6, 1996 and claims that it chose the domain name because the term “Movie Buff” is part of its service mark, “The Movie Buff’s Movie Store,” on which a federal registration [was] issued in 1991 covering “retail store services featuring video cassettes and video game cartridges” and “rental of video cassettes and video game cartridges.” West Coast notes further that, since at least 1988, it has also used various phrases including the term “Movie Buff” to promote goods and services available at its video stores in Massachusetts, including “The Movie Buff’s Gift Guide”; “The Movie Buff’s Gift Store”; “Calling All Movie Buffs!”; “Good News Movie Buffs!”; “Movie Buffs, Show Your Stuff!”; “the Perfect Stocking Stuffer for the Movie Buff!”; “A Movie Buff’s Top Ten”; “The Movie Buff Discovery Program”; “Movie Buff Picks”; “Movie Buff Series”; “Movie Buff Selection Program”; and “Movie Buff Film Series.”

On November 10, Brookfield delivered to West Coast a cease-and-desist letter alleging that West Coast’s planned use of the “moviebuff.com” would violate Brookfield’s trademark rights; as a “courtesy” Brookfield attached a copy of a complaint that it threatened to file if West Coast did not desist.

The next day, West Coast issued a press release announcing the imminent launch of its web site full of “movie reviews, Hollywood news and gossip, provocative commentary, and coverage of the independent film scene and films in production.” The press release declared that the site would feature “an extensive database, which aids consumers in making educated decisions about the rental and purchase of” movies and would also allow customers to purchase movies, accessories, and other entertainment-related merchandise on the web site.

Brookfield [immediately sought injunctive relief, claiming] that West Coast’s proposed offering of online services at “moviebuff.com” would constitute trademark infringement and unfair competition in violation of sections 32 and 43(a) of the Lanham Act, 15 U.S.C. 1114, 1125(a) . . . “[and that West Coast’s use of] the mark MOVIEBUFF, or any other term or terms likely to cause confusion therewith, including moviebuff.com, as West Coast’s domain name, . . . as the name of West Coast’s website service, in buried code or metatags on their home page or web pages, or in connection with the retrieval of data or information on other goods or services.”

. . . West Coast [countered] first that Brookfield could not prevent West Coast from using “moviebuff.com” in commerce because West Coast was the senior user. West Coast claimed that it was the first user of “MovieBuff” because it had used its federally registered trademark, “The Movie Buff’s Movie Store,” [applied for in 1989, issued in 1991] since 1986 in advertisements, promotions, and letterhead in connection with retail services featuring videocassettes and video game cartridges. Alternatively, West Coast claimed seniority on the basis that it had garnered common-law rights in the domain name by using “moviebuff.com” before Brookfield began offering its “MovieBuff” Internet-based searchable database on the Web. In addition to asserting seniority, West Coast contended that its planned use of “moviebuff.com” would not cause a likelihood of confusion with Brookfield’s trademark “MovieBuff” and thus would not violate the Lanham Act.

The district court [treated the TRO motion as a motion for a preliminary injunction and denied it, concluding] that West Coast was the senior user of the mark “MovieBuff” for both of the reasons asserted by West Coast. The court also determined that Brookfield had not established a likelihood of confusion. . . .

II

The Internet is a global network of interconnected computers which allows individuals and organizations around the world to communicate and to share information with one another. The [World Wide] Web, a collection of information resources contained in documents located on individual computers around the world, is the most widely used and fastest-growing part of the Internet except perhaps for electronic mail (“e-mail”). [Citations omitted.]

Each web page has a corresponding domain address, which is an identifier somewhat analogous to a telephone number or street address. Domain names consist of a second-level domain—simply a term or series of terms (e.g., west-coastvideo)—followed by a top-level domain, many of which describe the nature of the enterprise. Top-level domains include “.com” (commercial), “.edu” (educational), “.org” (non-profit and miscellaneous organizations), “.gov” (government), “.net” (networking provider), and “.mil” (military). See *Panavision*, 141 F.3d at 1318. Commercial entities generally use the “.com” top-level domain, which also serves as a catchall top-level domain. See *id.* To obtain a domain name, an individual or entity files an application with Network Solutions listing the domain name the applicant wants. Because each web page must have a unique domain name, Network Solution checks to see whether the requested domain name has already been assigned to someone else. If so, the applicant must choose a different domain name. Other than requiring an applicant to make certain representations, Network solutions does not make an independent determination about a registrant’s right to use a particular domain name. See *id.* at 1318–19.

Using a Web browser, such as Netscape’s Navigator or Microsoft’s Internet Explorer, a cyber “surfer” may navigate the Web—searching for, communicating with, and retrieving information from various web sites. See *id.*; *Microsoft*, 147 F.3d at 939–40, 950. A specific web site is most easily located by using its domain name. See *Panavision*, 141 F.3d at 1327. Upon entering a domain name into the web browser, the corresponding web site will quickly appear on the computer screen. Sometimes, however, a Web surfer will not know the domain name of the site he is looking for, whereupon he has two principal options: trying to guess the domain name or seeking the assistance of an Internet “search engine.”

Oftentimes, an Internet user will begin by hazarding a guess at the domain name, especially if there is an obvious domain name to try. Web users often assume, as a rule of thumb, that the domain name of a particular company will be the company name followed by “.com.” [Citations omitted.] For example, one looking for Kraft Foods, Inc. might try “kraftfoods.com,” and indeed this web site contains information on Kraft’s many food products. Sometimes, a trademark is better known than the company itself, in which case a Web surfer may assume that the domain address will be “‘trademark’.com.” See *Panavision*, 141 F.3d at 1327; *Beverly v. Network Solutions, Inc.*, No. 98–0337, 1998 WL 320829, at *1 (N.D.Cal. June 12, 1998) (“Companies attempt to make the search for their web site as easy as possible. They do so by using a corporate name, trademark or service mark as their web site address.”) One interested in today’s news would do well visiting “usatoday.com,” which features, as one would expect, breaking stories from Gannett’s USA Today. Guessing domain names, however, is not a risk-free activity. The Web surfer who assumes that “‘X’.com” will always correspond to the web site of company X or trademark X will, however, sometimes

be misled. One looking for the latest information on Panavision, International, L.P., would sensibly try “panavision.com.” Until recently, that Web surfer would have instead found a web site owned by Dennis Toeppen featuring photographs of the City of Pana, Illinois. See *Panavision*, 141 F.3d at 1319. Having registered several domain names that logically would have corresponded to the web sites of major companies such as Panavision, Delta Airlines, Neiman Marcus, [and] Lufthansa, Toeppen sought to sell “panavision.com” to Panavision, which gives one a taste of some of the trademark issues that have arisen in cyberspace. See *id.*; see also, e.g., *Cardservice*, 950 F. Supp. at 740–42.

A Web surfer’s second option when he does not know the domain name is to utilize an Internet search engine, such as Yahoo, Altavista, or Lycos. See *ACLU v. Reno*, 31 F. Supp. 2d 473, 484 (E.D.Pa. 1999); *Washington Speakers Bureau, Inc. v. Leading Authorities, Inc.*, 33 F.Supp. 2d 488, 499 (E.D.Va 1999). When a keyword is entered, the search engine processes it through a self-created index of web sites to generate a (sometimes long) list relating to the entered keyword. Each search engine uses its own algorithm to arrange indexed materials in sequence, so the list of web sites that any particular set of keywords will bring up may differ depending on the search engine used. [Citations omitted.] Search engines look for keywords in places such as domain names, actual text on the web page, and metatags. Metatags are HTML code intended to describe the contents of the web site. There are different types of metatags, but those of principal concern to us are the “description” and “keyword” metatags. The description metatags are intended to describe the web site; the keyword metatags, at least in theory, contain keywords relating to the contents of the web site. The more often a term appears in the metatags and in the text of the web page, the more likely it is that the web page will be “hit” in a search for that keyword and the higher on the list of “hits” the web page will appear. See *Niton*, 27 F.Supp. 2d at 104.

With this basic understanding of the Internet and the Web, we may now analyze the legal issues before us.

III

We review the district court’s denial of preliminary injunctive relief for an abuse of discretion. . . .

“A plaintiff is entitled to a preliminary injunction in a trademark case when he demonstrates either (1) a combination of probable success on the merits and the possibility of irreparable injury or (2) the existence of serious questions going to the merits and that the balance of hardships tips sharply in his favor.” *Sardi’s Restaurant Corp. v. Sardie*, 755 F.2d 719, 723 (9th Cir. 1985). To establish a trademark infringement claim under section 32 of the Lanham Act [which prohibits the unauthorized “use in commerce [of] any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive”] or an unfair competition claim under section 43(a) of the Lanham Act, Brookfield must establish that West Coast is using a mark confusingly similar to a valid, protectable trademark of Brookfield’s. . . . See *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979). The district court denied Brookfield’s motion for preliminary injunctive relief because it concluded that Brookfield had failed to establish that it was the senior user of the “MovieBuff” mark or that

West Coast's use of the "moviebuff.com" domain name created a likelihood of confusion.

We review each of the district court's conclusions in turn.

IV

To resolve whether West Coast's use of "moviebuff.com" constitutes trademark infringement or unfair competition, we must first determine whether Brookfield has a valid, protectable trademark interest in the "MovieBuff" mark. . . . To acquire ownership of a trademark it is not enough to have invented the mark first or even to have registered it first; the party claiming ownership must have been the first to actually use the mark in the sale of goods or services." [*Sengoku Works, Ltd. v. RMC International, Ltd.*, 96 F.3d 1217, 1219 (9th Cir. 1996)], cert. denied, 521 U.S. 1103, 117 S.Ct. 2478, 138 L.Ed.2d 987 (1997). The first to use a mark is deemed the "senior" user and has the right to enjoin "junior" users from using confusingly similar marks in the same industry and market or within the senior user's natural zone of expansion. [Citations omitted.]

It is uncontested that Brookfield began selling "MovieBuff" software in 1993 and that West Coast did not use "moviebuff.com" until 1996. According to West Coast, however, the fact that it has used "The Movie Buff's Movie Store" as a trademark since 1986 makes it the first user for purposes of trademark priority. In the alternative, West Coast claims priority on the basis that it used "moviebuff.com" in commerce before Brookfield began offering its "MovieBuff" searchable database on the Internet. We analyze these contentions in turn.

A

Conceding that the first time that it actually used "moviebuff.com" was in 1996, West Coast argues that its earlier use of "The Movie Buff's Movie Store" constitutes [constructive] use of "moviebuff.com." [Although the 9th Circuit had not previously considered this issue, other] circuits have explicitly recognized the ability of a trademark owner to claim priority in a mark based on the first use date of a similar, but technically distinct, mark—but only in the exceptionally narrow instance where "the previously used mark is 'the legal equivalent of the mark in question or indistinguishable therefrom' such that consumers 'consider both as the same mark.'" *Data Concepts, Inc. v. Digital Consulting, Inc.*, 150 F.3d 620, 623 (6th Cir. 1998) (quoting *Van Dyne-Crotty, Inc. v. Wear-Guard Corp.*, 926 F.2d 1156, 1159 (Fed.Cir. 1991)); accord *Van Dyne-Crotty*, 926 F.2d at 1159. This constructive use theory is known as "tacking," as the trademark holder essentially seeks to "tack" his first use date in the earlier mark onto the subsequent mark. See generally J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* 17: 25–27 (4th ed.1998) [hereafter "McCarthy"].

We agree that tacking should be allowed if two marks are so similar that consumers generally would regard them as essentially the same. Where such is the case, the new mark serves the same identificatory function as the old mark. Giving the trademark owner the same rights in the new mark as he has in the old helps to protect source-identifying trademarks from appropriation by competitors and thus furthers the trademark law's objective of reducing the costs that customers incur in shopping and making purchasing decisions. [Citations omitted.]

Without tacking, a trademark owner's priority in his mark would be reduced each time he made the slightest alteration to the mark, which would discourage

him from altering the mark in response to changing consumer preferences, evolving aesthetic developments, or new advertising and marketing styles. [Citations deleted.]

The standard for “tacking,” however, is exceedingly strict: “The marks must create the same, continuing commercial impression, and the later mark should not materially differ from or alter the character of the mark attempted to be tacked.” *Van Dyne-Crotty*, 926 F.2d at 1159 [citations and quotation marks omitted]. In other words, “the previously used mark must be the legal equivalent of the mark in question or indistinguishable therefrom, and the consumer should consider both as the same mark.” *Id.* (emphasis added); see also *Data Concepts*, 150 F.3d at 623 (adopting the *Van Dyne-Crotty* test). This standard is considerably higher than the standard for “likelihood of confusion,” which we discuss *infra*. . . .

Since tacking does not apply, we must therefore conclude that Brookfield is the senior user because it marketed “MovieBuff” products well before West Coast began using “moviebuff.com” in commerce: West Coast’s use of “The Movie Buff’s Movie Store” is simply irrelevant. . . .

West Coast makes a half-hearted claim that “MovieBuff” is confusingly similar to its earlier used mark “The Movie Buff’s Movie Store.” If this were so, West Coast would undoubtedly be the senior user . . . West Coast, however, essentially conceded that “MovieBuff” and “The Movie Buff’s Movie Store” are not confusingly similar when it stated in its pre-argument papers that it does not allege actual confusion between “MovieBuff” and West Coast’s federally registered mark. We cannot think of more persuasive evidence that there is no likelihood of confusion between these two marks than the fact that they have been simultaneously used for five years without causing any consumers to be confused as to who makes what. . . . Although there may be the rare case in which a likelihood of future confusion is possible even where it is conceded that two marks have been used simultaneously for years with no resulting confusion, West Coast has not shown this to be such a case. . . . Priority is accordingly to be determined on the basis of whether Brookfield used “MovieBuff” or West Coast used “moviebuff.com” first.

B

West Coast argues that we are mixing apples and oranges when we compare its first use date of “moviebuff.com” with the first sale date of “MovieBuff” software. West Coast reminds us that Brookfield uses the “MovieBuff” mark with both computer software and the provision of an Internet database; according to West Coast, its use of “moviebuff.com” can cause confusion only with respect to the latter. West Coast asserts that we should accordingly determine seniority by comparing West Coast’s first use date of “moviebuff.com” not with when Brookfield first sold software, but with when it first offered its database online.

As an initial matter, we note that West Coast’s argument is premised on the assumption that its use of “moviebuff.com” does not cause confusion between its web site and Brookfield’s “MovieBuff” software products. Even though Brookfield’s computer software and West Coast’s offerings on its web site are not identical products, likelihood of confusion can still result where, for example, there is a likelihood of expansion in product lines. See *Official Airline Guides, Inc. v. Goss*, 6 F.3d 1385, 1394 (9th Cir. 1993). As the leading trademark commentator explains: “When a senior user of a mark on product line A expands

later into product line B and finds an intervening user, priority in product line B is determined by whether the expansion is ‘natural’ in that customers would have been confused as to source or affiliation at the time of the intervening user’s appearance.” 2 McCarthy 16:5. We need not, however, decide whether the Web was within Brookfield’s natural zone of expansion, because we conclude that Brookfield’s use of “MovieBuff” as a service mark preceded West Coast’s use.

Brookfield first used “MovieBuff” on its Internet-based products and services in August 1997, so West Coast can prevail only if it establishes first use earlier than that. In the literal sense of the word, West Coast “used” the term “moviebuff.com” when it registered that domain address in February 1996. Registration with Network Solutions, however, does not in itself constitute “use” for purposes of acquiring trademark priority. See *Panavision*, 141 F.3d at 1324–25. The Lanham Act grants trademark protection only to marks that are used to identify and to distinguish goods or services in commerce—which typically occurs when a mark is used in conjunction with the actual sale of goods or services. The purpose of a trademark is to help consumers identify the source, but a mark cannot serve a source-identifying function if the public has never seen the mark and thus is not meritorious of trademark protection until it is used in public in a manner that creates an association among consumers between the mark and the mark’s owner. . . .

In fact, Congress amended the Lanham Act in 1988 to strengthen this “use in commerce” requirement, making clear that trademark rights can be conveyed only through “the bona fide use of a mark in the ordinary course of trade, and not [use] made merely to reserve a mark.” 15 U.S.C. 1127. Congress provided more specifically:

For purposes of this chapter, a mark shall be deemed to be in use in commerce—

(1) on goods when—

(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and

(B) the goods are sold or transported in commerce, and

(2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services. *Id.*

The district court, while recognizing that mere registration of a domain name was not sufficient to constitute commercial use for purposes of the Lanham Act, nevertheless held that registration of a domain name with the intent to use it commercially was sufficient to convey trademark rights. This analysis, however, contradicts both the express statutory language and the case law which firmly establishes that trademark rights are not conveyed through mere intent to use a mark commercially, see, e.g., *Allard Enters. v. Advanced Programming Resources, Inc.*, 146 F.3d 350, 356 (6th Cir. 1998); *Zazu Designs v. L’Oreal, S.A.*, 979 F.2d 499, 504 (7th Cir. 1992) (“[A]n intent to use a mark creates no rights a competitor is bound to respect.”), nor through mere preparation to use a term as a trademark, see, e.g., *Hydro-Dynamics, Inc. v. George Putnam & Co.*, 811 F.2d 1470, 1473–

74 (Fed.Cir. 1987); *Computer Food Stores, Inc. v. Corner Store Franchises*, 176 U.S.P.Q. 535, 538, 1973 WL 19922 (T.T.A.B. 1973).

West Coast no longer disputes that its use—for purposes of the Lanham Act—of “moviebuff.com” did not commence until after February 1996. It instead relies on the alternate argument that its rights vested when it began using “moviebuff.com” in e-mail correspondence with lawyers and customers sometime in mid-1996. West Coast’s argument is not without support in our case law—we have indeed held that trademark rights can vest even before any goods or services are actually sold if “the totality of [one’s] prior actions, taken together, [can] establish a right to use the trademark.” *New West [Corp. v. NYM Company of California, Inc.]*, 595 F.2d [494 (9th Cir. 1979)] at 1200. Under *New West*, however, West Coast must establish that its e-mail correspondence constituted “[u]se in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark.” *Id.* quoting *New England Duplicating Co. v. Mendes*, 190 F.2d 415, 418 (1st Cir. 1951)); see also *Marvel Comics Ltd. v. Defiant*, 837 F. Supp. 546, 550 (S.D.N.Y. 1993) (“[T]he talismanic test is whether or not the use was sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark.”) (quotation marks and citation omitted).

West Coast fails to meet this standard. Its purported “use” is akin to putting one’s mark “on a business office door sign, letterheads, architectural drawings, etc.” or on a prototype displayed to a potential buyer, both of which have been held to be insufficient to establish trademark rights. See *Steer Inn Systems, Inc. v. Laughner’s Drive-In, Inc.*, 56 C.C.P.A. 911, 405 F.2d 1401, 1402 (C.C.P.A. 1969); *Walt Disney Productions v. Kusan, Inc.*, 204 U.S.P.Q. 284, 288 (C.D.Cal. 1979). Although widespread publicity of a company’s mark, such as Marvel Comic’s announcement to 13 million comic book readers that “Plasma” would be the title of a new comic book, see *Marvel Comics*, 837 F. Supp. at 550, or the mailing of 430,000 solicitation letters with one’s mark to potential subscribers of a magazine, see *New West*, 595 F.2d at 1200, may be sufficient to create an association among the public between the mark and West Coast, mere use in limited e-mail correspondence with lawyers and a few customers is not.

West Coast first announced its web site at “moviebuff.com” in a public and widespread manner in a press release of November 11, 1998, and thus it is not until at least that date that it first used the “moviebuff.com” mark for purpose of the Lanham Act. Accordingly, West Coast’s argument that it has seniority because it used “moviebuff.com” before Brookfield used “MovieBuff” as a service mark fails on its own terms. West Coast’s first use date was neither February 1996 when it registered its domain name with Network Solutions as the district court had concluded, nor April 1996 when it first used “moviebuff.com” in e-mail communications, but rather November 1998 when it first made a widespread and public announcement about the imminent launch of its web site. Thus, West Coast’s first use of “moviebuff.com” was preceded by Brookfield’s first use of “MovieBuff” in conjunction with its online database, making Brookfield the senior user.

For the foregoing reasons, we conclude that the district court erred in concluding that Brookfield failed to establish a likelihood of success on its claim of being the senior user.

V

Establishing seniority, however, is only half the battle. Brookfield must also show that the public is likely to be somehow confused about the source or sponsorship of West Coast's "moviebuff.com" web site—and somehow to associate that site with Brookfield. See 15 U.S.C. 1114(1); 1125(a). . . . We look to the following factors for guidance in determining the likelihood of confusion: similarity of the conflicting designations; relatedness or proximity of the two companies' products or services; strength of Brookfield's mark; marketing channels used; degree of care likely to be exercised by purchasers in selecting goods; West Coast's intent in selecting its mark; evidence of actual confusion; and likelihood of expansion in product lines. See *Dr. Seuss Enters. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1404 (9th Cir. 1997), *petition for cert. dismissed by*, 521 U.S. 1146, 118 S.Ct. 27, 138 L.Ed.2d 1057 (1997); *Sleekcraft*, 599 F.2d at 348–49; see also *Restatement (Third) of Unfair Competition* 20–23 (1995). These eight factors are often referred to as the Sleekcraft factors.

A word of caution: [the customary] eight-factor test [i.e., the "Sleekcraft" test] for likelihood of confusion is pliant. Some factors are much more important than others, and the relative importance of each individual factor will be case-specific. Although some factors—such as the similarity of the marks and whether the two companies are direct competitors—will always be important, it is often possible to reach a conclusion with respect to likelihood of confusion after considering only a subset of the factors. See *Dreamwerks Prod. Group v. SKG Studio*, 142 F.3d 1127, 1130–32 (9th Cir. 1998). Moreover, the foregoing list does not purport to be exhaustive, and non-listed variables may often be quite important. We must be acutely aware of excessive rigidity when applying the law in the Internet context; emerging technologies require a flexible approach.

A

We begin by comparing the allegedly infringing mark to the federally registered mark. The similarity of the marks will always be an important factor. Where the two marks are entirely dissimilar, there is no likelihood of confusion. "Pepsi" does not infringe Coca-Cola's "Coke." Nothing further need be said. Even where there is precise identity of a complainant's and an alleged infringer's mark, there may be no consumer confusion—and thus no trademark infringement—if the alleged infringer is in a different geographic area or in a wholly different industry. See *Weiner King, Inc. v. Wiener King Corp.*, 615 F.2d 512, 515–16, 521–22 (C.C.P.A. 1980) (permitting concurrent use of "Wiener King" as a mark for restaurants featuring hot dogs in New Jersey and "Wiener King" as a mark for restaurants in North Carolina); *Pinocchio's Pizza Inc. v. Sandra Inc.*, 11 U.S.P.Q.2d 1227, 1228, 1989 WL 297867 (T.T.A.B. 1989) (permitting concurrent use of "PINOCCHIO'S" as a service mark for restaurants in Maryland and "PINOCCHIOS" as a service mark for restaurants elsewhere in the country). Nevertheless, the more similar the marks in terms of appearance, sound, and meaning, the greater the likelihood of confusion. See, e.g., *Dreamwerks*, 142 F.3d at 1131; *Goss*, 6 F.3d at 1392 ("The court assesses the similarity of the marks in terms of their sight, sound, and meaning"). In analyzing this factor, "[t]he marks must be considered in their entirety and as they appear in the marketplace." *Goss*, 6 F.3d at 1392 (citing *Nutri/System, Inc. v. Con-Stan Indus., Inc.*, 809 F.2d 601, 605–06 (9th Cir. 1987), with similarities weighed more heavily than differ-

ences, see *id.* (citing *Rodeo Collection Ltd. v. West Seventh*, 812 F.2d 1215, 1219 (9th Cir. 1987)). . . .

In the present case, the district court found West Coast's domain name "moviebuff.com" to be quite different than Brookfield's domain name "moviebuffonline.com." Comparison of domain names, however, is irrelevant as a matter of law, since the Lanham Act requires that the allegedly infringing mark be compared with the claimant's trademark, see 15 U.S.C. 1114(1), 1125(a), which here is "MovieBuff," not "moviebuffonline.com." Properly framed, it is readily apparent that West Coast's allegedly infringing mark is essentially identical to Brookfield's mark "MovieBuff." In terms of appearance, there are differences in capitalization and the addition of ".com" in West Coast's complete domain name, but these differences are inconsequential in light of the fact that Web addresses are not caps-sensitive and that the ".com" top-level domain signifies the site's commercial nature.

Looks aren't everything, so we consider the similarity of sound and meaning. The two marks are pronounced the same way, except that one would say "dot com" at the end of West Coast's mark. Because many companies use domain names comprised of ".com" as the top-level domain with their corporate name or trademark as the second-level domain, see *Beverly*, 1998 WL 320829, at *1, the addition of ".com" is of diminished importance in distinguishing the mark. The irrelevance of the ".com" becomes further apparent once we consider similarity in meaning. The domain name is more than a mere address: like trademarks, second-level domain names communicate information as to source. As we explained in Part II, many Web users are likely to associate "moviebuff.com" with the trademark "MovieBuff," thinking that it is operated by the company that makes "MovieBuff" products and services. . . . Courts, in fact, have routinely concluded that marks were essentially identical in similar contexts. See, e.g., *Public Serv. Co. v. Nexus Energy Software, Inc.*, 36 F.Supp. 2d 436, —(D. Mass. 1999) (finding "energyplace.com" and "Energy Place" to be virtually identical); *Minnesota Mining & Mfg. Co. v. Taylor*, 21 F.Supp. 2d 1003, 1005 (D. Minn. 1998) (finding "post-it.com" and "Post-It" to be the same); *Interstellar Starship Services, Ltd. v. EPIX, Inc.*, 983 F. Supp. 1331, 1335 (D. Or. 1997) ("In the context of Internet use, [epix.com] is the same mark as [EPIX]."); *Planned Parenthood Federation of America, Inc. v. Bucci*, No. 97-0629, 1997 WL 133313, at *8 (S.D.N.Y. Mar. 24, 1997) (concluding that "plannedparenthood.com" and "Planned Parenthood" were essentially identical), *aff'd by*, 152 F.3d 920, 1998 WL 336163 (2d Cir. 1998), *cert. denied*,—U.S.—, 119 S.Ct. 90, 142 L.Ed.2d 71 (1998). As "MovieBuff" and "moviebuff.com" are, for all intents and purposes, identical in terms of sight, sound, and meaning, we conclude that the similarity factor weighs heavily in favor of Brookfield.*

The similarity of marks alone, as we have explained, does not necessarily lead to consumer confusion. Accordingly, we must proceed to consider the relatedness of the products and services offered. Related goods are generally more likely than unrelated goods to confuse the public as to the producers of the goods. . . .

The district court classified West Coast and Brookfield as non-competitors

*The fact that West Coast's second-level domain is exactly the same as Brookfield's mark is particularly important since potential customers of "MovieBuff" will go to "moviebuff.com," and not, for example, "moviebuffs.com." Had West Coast used the latter mark, the similarity factor would have favored Brookfield to a lesser extent.

largely on the basis that Brookfield is primarily an information provider while West Coast primarily rents and sells videotapes. It noted that West Coast's web site is used more by the somewhat curious video consumer who wants general movie information, while entertainment industry professionals, aspiring entertainment executives and professionals, and highly focused moviegoers are more likely to need or to want the more detailed information provided by "MovieBuff." This analysis, however, overemphasizes differences in principal lines of business, as we have previously instructed that "the relatedness of each company's prime directive isn't relevant." *Dreamwerks*, 142 F.3d at 1131. Instead, the focus is on whether the consuming public is likely somehow to associate West Coast's products with Brookfield. See *id.* Here, both companies offer products and services relating to the entertainment industry generally, and their principal lines of business both relate to movies specifically and are not as different as guns and toys, see *Toys "R" Us*, 26 F.Supp. 2d at 643, or computer circuit boards and the Rocky Horror Picture Show, see *Interstellar Starship*, 983 F. Supp. at 1336. Thus, Brookfield and West Coast are not properly characterized as non-competitors. See *American Int'l Group, Inc. v. American Int'l Bank*, 926 F.2d 829, 832 (9th Cir. 1991) (concluding that although the parties were not direct competitors, they both provided financial services and that customer confusion could result in light of the similarities between the companies' services).

Not only are they not non-competitors, the competitive proximity of their products is actually quite high. Just as Brookfield's "MovieBuff" is a searchable database with detailed information on films, West Coast's web site features a similar searchable database, which Brookfield points out is licensed from a direct competitor of Brookfield. Undeniably then, the products are used for similar purposes. "[T]he rights of the owner of a registered trademark . . . extend to any goods related in the minds of consumers," *E. Remy Martin & Co. v. Shaw-Ross Int'l Imports, Inc.*, 756 F.2d 1525, 1530 (11th Cir. 1985), and Brookfield's and West Coast's products are certainly so related to some extent. The relatedness is further evidenced by the fact that the two companies compete for the patronage of an overlapping audience. The use of similar marks to offer similar products accordingly weighs heavily in favor of likelihood of confusion. See *Sleekcraft*, 599 F.2d at 348 (concluding that high-speed waterskiing racing boats are sufficiently related to family-oriented recreational boats that the public is likely to be confused as to the source of the boats); *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149, 153-55 (9th Cir. 1963) (concluding that beer and whiskey are sufficiently similar to create a likelihood of confusion regarding the source of origin when sold under the same trade name); see also *Champions Golf Club, Inc. v. Champions Golf Club, Inc.*, 78 F.3d 1111, 1118 (6th Cir. 1996).

In addition to the relatedness of products, West Coast and Brookfield both utilize the Web as a marketing and advertising facility, a factor that courts have consistently recognized as exacerbating the likelihood of confusion. [Citations omitted.] Both companies, apparently recognizing the rapidly growing importance of Web commerce, are maneuvering to attract customers via the Web. Not only do they compete for the patronage of an overlapping audience on the Web, both "MovieBuff" and "moviebuff.com" are utilized in conjunction with Web-based products.

Given the virtual identity of "moviebuff.com" and "MovieBuff," the relatedness of the products and services accompanied by those marks, and the companies' simultaneous use of the Web as a marketing and advertising tool, many forms of

consumer confusion are likely to result. People surfing the Web for information on “MovieBuff” may confuse “MovieBuff” with the searchable entertainment database at “moviebuff.com” and simply assume that they have reached Brookfield’s web site. See, e.g., *Cardservice Int’l*, 950 F. Supp. at 741. In the Internet context, in particular, entering a web site takes little effort—usually one click from a linked site or a search engine’s list; thus, Web surfers are more likely to be confused as to the ownership of a web site than traditional patrons of a brick-and-mortar store would be of a store’s ownership. Alternatively, they may incorrectly believe that West Coast licensed “MovieBuff” from Brookfield, see, e.g., *Indianapolis Colts, Inc. v. Metropolitan Baltimore Football Club Ltd.*, 34 F.3d 410, 415–16 (7th Cir. 1994), or that Brookfield otherwise sponsored West Coast’s database, see *E. Remy Martin*, 756 F.2d at 1530; *Fuji Photo Film Co. v. Shinohara Shoji Kabushiki Kaisha*, 754 F.2d 591, 596 (5th Cir. 1985). Other consumers may simply believe that West Coast bought out Brookfield or that they are related companies.

Yet other forms of confusion are likely to ensue. Consumers may wrongly assume that the “MovieBuff” database they were searching for is no longer offered, having been replaced by West Coast’s entertainment database, and thus simply use the services at West Coast’s web site. See, e.g., *Cardservice Int’l*, 950 F. Supp. at 741. And even where people realize, immediately upon accessing “moviebuff.com,” that they have reached a site operated by West Coast and wholly unrelated to Brookfield, West Coast will still have gained a customer by appropriating the goodwill that Brookfield has developed in its “MovieBuff” mark. A consumer who was originally looking for Brookfield’s products or services may be perfectly content with West Coast’s database (especially as it is offered free of charge); but he reached West Coast’s site because of its use of Brookfield’s mark as its second-level domain name, which is a misappropriation of Brookfield’s goodwill by West Coast. See *infra* Part V.B.

The district court apparently assumed that likelihood of confusion exists only when consumers are confused as to the source of a product they actually purchase. It is, however, well established that the Lanham Act protects against the many other forms of confusion that we have outlined. [Citations omitted.]

The factors that we have considered so far—the similarity of marks, the relatedness of product offerings, and the overlap in marketing and advertising channels—lead us to the tentative conclusion that Brookfield has made a strong showing of likelihood of confusion. Because it is possible that the remaining factors will tip the scale back the other way if they weigh strongly enough in West Coast’s favor, we consider the remaining likelihood of confusion factors, beginning with the strength of Brookfield’s mark. The stronger a mark—meaning the more likely it is to be remembered and associated in the public mind with the mark’s owner—the greater the protection it is accorded by the trademark laws. . . . West Coast asserts that Brookfield’s mark is “not terribly distinctive,” by which it apparently means suggestive, but only weakly so. Although Brookfield does not seriously dispute that its mark is only suggestive, it does defend its (mark’s) muscularity.

We have recognized that, unlike arbitrary or fanciful marks which are typically strong, suggestive marks are presumptively weak. See, e.g., *Nutri/System*, 809 F.2d at 605. As the district court recognized, placement within the conceptual distinctiveness spectrum is not the only determinant of a mark’s strength, as advertising expenditures can transform a suggestive mark into a strong mark, see

id., where, for example, that mark has achieved actual marketplace recognition, see *Streetwise Maps, Inc. v. Vandam, Inc.*, 159 F.3d 739, 743–44 (2d Cir. 1998). Brookfield, however, has not come forth with substantial evidence establishing the widespread recognition of its mark; although it argues that its strength is established from its use of “MovieBuff” for over five years, its federal and California state registrations, and its expenditure of \$100,000 in advertising its mark, the district court did not clearly err in classifying “MovieBuff” as weak. Some weak marks are weaker than others, and although “MovieBuff” falls within the weak side of the strength spectrum, the mark is not so flabby as to compel a finding of no likelihood of confusion in light of the other factors that we have considered. Importantly, Brookfield’s trademark is not descriptive because it does not describe either the software product or its purpose. Instead, it is suggestive—and thus strong enough to warrant trademark protection—because it requires a mental leap from the mark to the product. See *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 59 F.3d 902, 910–11 (9th Cir. 1995). Because the products involved are closely related and West Coast’s domain name is nearly identical to Brookfield’s trademark, the strength of the mark is of diminished importance in the likelihood of confusion analysis. See McCarthy ¶ 11:76 (“Whether a mark is weak or not is of little importance where the conflicting mark is identical and the goods are closely related”).

We thus turn to intent. “The law has long been established that if an infringer ‘adopts his designation with the intent of deriving benefit from the reputation of the trade-mark or trade name, its intent may be sufficient to justify the inference that there are confusing similarities.’” *Pacific Telesis v. International Telesis Comms.*, 994 F.2d 1364, 1369 (9th Cir. 1993) (quoting Restatement of Torts, 729, Comment on Clause (b)f (1938)). An inference of confusion has similarly been deemed appropriate where a mark is adopted with the intent to deceive the public. See *Gallo*, 967 F.2d at 1293 (citing *Sleekcraft*, 599 F.2d at 354). The district court found that the intent factor favored West Coast because it did not adopt the “moviebuff.com” mark with the specific purpose of infringing Brookfield’s trademark. The intent prong, however, is not so narrowly confined.

This factor favors the plaintiff where the alleged infringer adopted his mark with knowledge, actual or constructive, that it was another’s trademark. See *Official Airline Guides*, 6 F.3d at 1394 (“When an alleged infringer knowingly adopts a mark similar to another’s, courts will presume an intent to deceive the public.”); *Fleischmann Distilling*, 314 F.2d 149 at 157. In the Internet context, in particular, courts have appropriately recognized that the intentional registration of a domain name knowing that the second-level domain is another company’s valuable trademark weighs in favor of likelihood of confusion. See, e.g., *Washington Speakers* 33 F.Supp. 2d 488, 500. There is, however, no evidence in the record that West Coast registered “moviebuff.com” with the principal intent of confusing consumers. Brookfield correctly points out that, by the time West Coast launched its web site, it did know of Brookfield’s claim to rights in the trademark “MovieBuff.” But when it registered the domain name with Network Solutions, West Coast did not know of Brookfield’s rights in “MovieBuff” (at least Brookfield has not established that it did). Although Brookfield asserts that West Coast could easily have launched its web site at its alternate domain address, “westcoastvideo.com,” thereby avoiding the infringement problem, West Coast claims that it had already invested considerable sums in developing its “moviebuff.com” web site by the

time that Brookfield informed it of its rights in the trademark. Considered as a whole, this factor appears indeterminate.

Importantly, an intent to confuse consumers is not required for a finding of trademark infringement. See *Dreamwerks*, 142 F.3d at 1132 n.12 (“Absence of malice is no defense to trademark infringement”); *Daddy’s Junky Music Stores*, 109 F.3d at 287 (“As noted, the presence of intent can constitute strong evidence of confusion. The converse of this proposition, however, is not true: the lack of intent by a defendant is largely irrelevant in determining if consumers likely will be confused as to source.”) (internal quotation marks and citations omitted); *Fleischmann Distilling*, 314 F.2d at 157. Instead, this factor is only relevant to the extent that it bears upon the likelihood that consumers will be confused by the alleged infringer’s mark (or to the extent that a court wishes to consider it as an equitable consideration). See *Sleekcraft Boats*, 599 F.2d at 348 n.10. Here, West Coast’s intent does not appear to bear upon the likelihood of confusion because it did not act with such an intent from which it is appropriate to infer consumer confusion.

The final three *Sleekcraft* factors—evidence of actual confusion, likelihood of expansion in product lines, and purchaser care—do not affect our ultimate conclusion regarding the likelihood of confusion. The first two factors do not merit extensive comment. Actual confusion is not relevant because Brookfield filed suit before West Coast began actively using the “moviebuff.com” mark and thus never had the opportunity to collect information on actual confusion. The likelihood of expansion in product lines factor is relatively unimportant where two companies already compete to a significant extent. See *Official Airline Guides*, 6 F.3d at 1394. In any case, it is neither exceedingly likely nor unlikely that West Coast will enter more directly into Brookfield’s principal market, or vice versa.

Although the district court did not discuss the degree of care likely to be exercised by purchasers of the products in question, we think that this issue deserves some consideration. Likelihood of confusion is determined on the basis of a “reasonably prudent consumer.” *Dreamwerks*, 142 F.3d at 1129; *Sleekcraft*, 599 F.2d at 353. What is expected of this reasonably prudent consumer depends on the circumstances. We expect him to be more discerning—and less easily confused—when he is purchasing expensive items, see, e.g., *Official Airline Guides*, 6 F.3d at 1393 (noting that confusion was unlikely among advertisers when the products in question cost from \$2,400 to \$16,000), and when the products being sold are marketed primarily to expert buyers, see, e.g., *Accuride Int’l, Inc. v. Accuride Corp.*, 871 F.2d 1531, 1537 (9th Cir. 1989). We recognize, however, that confusion may often be likely even in the case of expensive goods sold to discerning customers. See *Sleekcraft*, 599 F.2d at 353. [Additional citations omitted.] On the other hand, when dealing with inexpensive products, customers are likely to exercise less care, thus making confusion more likely. See, e.g., *Gallo*, 967 F.2d at 1293 (wine and cheese).

The complexity in this case arises because we must consider both entertainment professionals, who probably will take the time and effort to find the specific product they want, and movie devotees, who will be more easily confused as to the source of the database offered at West Coast’s web site. In addition, West Coast’s site is likely to be visited by many casual movie watchers. The entertainment professional, movie devotee, and casual watcher are likely to exercise high, little, and very little care, respectively. Who is the reasonably prudent consumer? Although we have not addressed the issue of purchaser care in mixed buyer

classes, another circuit has held that “the standard of care to be exercised by the reasonably prudent purchaser will be equal to that of the least sophisticated consumer.” *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 283 (3d Cir. 1991); see also *Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971) (instructing that, where a product is targeted both to discriminating and casual buyers, a court must consider the likelihood of confusion on the part of the relatively unknowledgeable buyers as well as of the former group); 3 McCarthy 23:100 (advocating this approach). This is not the only approach available to us, as we could alternatively use a weighted average of the different levels of purchaser care in determining how the reasonably prudent consumer would act. We need not, however, decide this question now because the purchaser confusion factor, even considered in the light most favorable to West Coast, is not sufficient to overcome the likelihood of confusion strongly established by the other factors we have analyzed.

West Coast makes one last ditch argument—that, even if there is a likelihood of confusion, Brookfield should be estopped from asserting its trademark rights because it waited too long to file suit. Although we have applied laches to bar trademark infringement claims, we have done so only where the trademark holder knowingly allowed the infringing mark to be used without objection for a lengthy period of time. . . . Here, although Brookfield waited over two years before notifying West Coast that its intended use of “moviebuff.com” would infringe on Brookfield’s trademark, West Coast did not do anything with its domain address during that time, and Brookfield filed suit the very day that West Coast publicly announced its intention to launch a web site at “moviebuff.com.” Accordingly, we conclude that Brookfield’s delay was not such that it should be estopped from pursuing an otherwise meritorious claim. . . .

In light of the foregoing analysis, we conclude that Brookfield has demonstrated a likelihood of success on its claim that West Coast’s use of “moviebuff.com” violates the Lanham Act. We are fully aware that although the question of “[w]hether confusion is likely is a factual determination woven into the law,” we nevertheless must review only for clear error the district court’s conclusion that the evidence of likelihood of confusion in this case was slim. See *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352, 1356 (9th Cir. 1985) (en banc). Here, however, we are “left with the definite and firm conviction that a mistake has been made.” *Pacific Telesis Group v. International Telesis Comms.*, 994 F.2d 1364, 1367 (9th Cir. 1993).

B

So far we have considered only West Coast’s use of the domain name “moviebuff.com.” Because Brookfield requested that we also preliminarily enjoin West Coast from using marks confusingly similar to “MovieBuff” in metatags and buried code, we must also decide whether West Coast can, consistently with the trademark and unfair competition laws, use “MovieBuff” or “moviebuff.com” in its HTML code. . . .

At first glance, our resolution of the infringement issues in the domain name context would appear to dictate a similar conclusion of likelihood of confusion with respect to West Coast’s use of “moviebuff.com” in its metatags. Indeed, all eight likelihood of confusion factors outlined in Part V-A—with the possible exception of purchaser care, which we discuss below—apply here as they did in our analysis of domain names; we are, after all, dealing with the same marks, the

same products and services, the same consumers, etc. Disposing of the issue so readily, however, would ignore the fact that the likelihood of confusion in the domain name context resulted largely from the associational confusion between West Coast's domain name "moviebuff.com" and Brookfield's trademark "MovieBuff." The question in the metatags context is quite different. Here, we must determine whether West Coast can use "MovieBuff" or "moviebuff.com" in the metatags of its web site at "westcoastvideo.com" or at any other domain address other than "moviebuff.com" (which we have determined that West Coast may not use).

Although entering "MovieBuff" into a search engine is likely to bring up a list including "westcoastvideo.com" if West Coast has included that term in its metatags, the resulting confusion is not as great as where West Coast uses the "moviebuff.com" domain name. First, when the user inputs "MovieBuff" into an Internet search engine, the list produced by the search engine is likely to include both West Coast's and Brookfield's web sites. Thus, in scanning such list, the Web user will often be able to find the particular web site he is seeking. Moreover, even if the Web user chooses the web site belonging to West Coast, he will see that the domain name of the web site he selected is "westcoastvideo.com." Since there is no confusion resulting from the domain address, and since West Coast's initial web page prominently displays its own name, it is difficult to say that a consumer is likely to be confused about whose site he has reached or to think that Brookfield somehow sponsors West Coast's web site.

Nevertheless, West Coast's use of "moviebuff.com" in metatags will still result in what is known as initial interest confusion. Web surfers looking for Brookfield's "MovieBuff" products who are taken by a search engine to "westcoastvideo.com" will find a database similar enough to "MovieBuff" such that a sizeable number of consumers who were originally looking for Brookfield's product will simply decide to utilize West Coast's offerings instead. Although there is no source confusion in the sense that consumers know they are patronizing West Coast rather than Brookfield, there is nevertheless initial interest confusion in the sense that, by using "moviebuff.com" or "MovieBuff" to divert people looking for "MovieBuff" to its web site, West Coast improperly benefits from the goodwill that Brookfield developed in its mark. Recently in *Dr. Seuss* we explicitly recognized that the use of another's trademark in a manner calculated "to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion, may be still an infringement." *Dr. Seuss*, 109 F.3d at 1405 (citing *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 257-58 (2d Cir. 1987).*

The *Dr. Seuss* court, in recognizing that the diversion of consumers' initial interest is a form of confusion against which the Lanham Act protects, relied upon *Mobil Oil*. In that case, Mobil Oil Corporation ("Mobil") asserted a federal trademark infringement claim against Pegasus Petroleum, alleging that Pegasus Petroleum's use of "Pegasus" was likely to cause confusion with Mobil's trade-

*The *Dr. Seuss* court discussed initial interest confusion within its purchaser care analysis. As a district court within our circuit recognized in a recent case involving a claim of trademark infringement via metatags usage, "[t]his case . . . is not a standard trademark case and does not lend itself to the systematic application of the eight factors." *Playboy Enters. v. Welles*, 7 F.Supp.2d 1098 (S.D. Cal. 1998). Because we agree that the traditional eight-factor test is not well-suited for analyzing the metatags issue, we do not attempt to fit our discussion into one of the *Sleekcraft* factors.

mark, a flying horse symbol in the form of the Greek mythological Pegasus. Mobil established that “potential purchasers would be misled into an initial interest in Pegasus Petroleum” because they thought that Pegasus Petroleum was associated with Mobil. *Id.* at 260. But these potential customers would generally learn that Pegasus Petroleum was unrelated to Mobil well before any actual sale was consummated. See *id.* Nevertheless, the Second Circuit held that “[s]uch initial confusion works a sufficient trademark injury.” *Id.* . . .

Both *Dr. Seuss* and the Second Circuit hold that initial interest confusion is actionable under the Lanham Act, which holdings are bolstered by the decisions of many other courts which have similarly recognized that the federal trademark and unfair competition laws do protect against this form of consumer confusion. [Citations deleted.]

Using another’s trademark in one’s metatags is much like posting a sign with another’s trademark in front of one’s store. Suppose West Coast’s competitor (let’s call it “Blockbuster”) puts up a billboard on a highway reading—“West Coast Video: 2 miles ahead at Exit 7”—where West Coast is really located at Exit 8 but Blockbuster is located at Exit 7. Customers looking for West Coast’s store will pull off at Exit 7 and drive around looking for it. Unable to locate West Coast, but seeing the Blockbuster store right by the highway entrance, they may simply rent there. Even consumers who prefer West Coast may find it not worth the trouble to continue searching for West Coast since there is a Blockbuster right there. Customers are not confused in the narrow sense: they are fully aware that they are purchasing from Blockbuster and they have no reason to believe that Blockbuster is related to, or in any way sponsored by, West Coast. Nevertheless, the fact that there is only initial consumer confusion does not alter the fact that Blockbuster would be misappropriating West Coast’s acquired goodwill. . . .

The few courts to consider whether the use of another’s trademark in one’s metatags constitutes trademark infringement have ruled in the affirmative. For example, in a case in which Playboy Enterprises, Inc. (“Playboy”) sued AsiaFocus International, Inc. (“AsiaFocus”) for trademark infringement resulting from AsiaFocus’s use of the federally registered trademarks “Playboy” and “Playmate” in its HTML code, a district court granted judgment in Playboy’s favor, reasoning that AsiaFocus intentionally misled viewers into believing that its Web site was connected with, or sponsored by, Playboy. See *Playboy Enters. v. Asiafocus Int’l, Inc.*, No. CIV.A. 97-734-A, 1998 WL 724000, at *3, *6-*7 (E.D.Va. Apr. 10, 1998).

In a similar case also involving Playboy, a district court in California concluded that Playboy had established a likelihood of success on the merits of its claim that defendants’ repeated use of “Playboy” within “machine readable code in Defendants’ Internet Web pages, so that the PLAYBOY trademark [was] accessible to individuals or Internet search engines which attempt[ed] to access Plaintiff under Plaintiff’s PLAYBOY registered trademark” constituted trademark infringement. See *Playboy Enters. v. Calvin Designer Label*, 985 F. Supp. 1220, 1221 (N.D.Cal. 1997). The court accordingly enjoined the defendants from using Playboy’s marks in buried code or metatags. See *id.* at 1221-22.

In a metatags case with an interesting twist, a district court in Massachusetts also enjoined the use of metatags in a manner that resulted in initial interest confusion. See *Niton*, 27 F.Supp. 2d at 102-05. In that case, the defendant Radiation Monitoring Devices (“RMD”) did not simply use Niton Corporation’s

(“Niton”) trademark in its metatags. Instead, RMD’s web site directly copied Niton’s web site’s metatags and HTML code. As a result, whenever a search performed on an Internet search engine listed Niton’s web site, it also listed RMD’s site. Although the opinion did not speak in terms of initial consumer confusion, the court made clear that its issuance of preliminary injunctive relief was based on the fact that RMD was purposefully diverting people looking for Niton to its web site. See *id.* at 104–05.

Consistently with *Dr. Seuss*, the Second Circuit, and the cases which have addressed trademark infringement through metatags use, we conclude that the Lanham Act bars West Coast from including in its metatags any term confusingly similar with Brookfield’s mark. West Coast argues that our holding conflicts with *Holiday Inns*, in which the Sixth Circuit held that there was no trademark infringement where an alleged infringer merely took advantage of a situation in which confusion was likely to exist and did not affirmatively act to create consumer confusion. See *Holiday Inns*, 86 F.3d at 622 (holding that the use of “1-800-405-4329”—which is equivalent to “1-800-H[zero]LIDAY”—did not infringe Holiday Inn’s trademark, “1-800-HOLIDAY”).

Unlike the defendant in *Holiday Inns*, however, West Coast was not a passive figure; instead, it acted affirmatively in placing Brookfield’s trademark in the metatags of its web site, thereby creating the initial interest confusion. Accordingly, our conclusion comports with *Holiday Inns*.

C

Contrary to West Coast’s contentions, we are not in any way restricting West Coast’s right to use terms in a manner which would constitute fair use under the Lanham Act. See *New Kids on the Block v. News America Pub., Inc.*, 971 F.2d 302, 306–09 (9th Cir. 1992); see also *August Storck v. K.G. Nabisco, Inc.*, 59 F.3d 616, 617–18 (7th Cir. 1995). It is well established that the Lanham Act does not prevent one from using a competitor’s mark truthfully to identify the competitor’s goods, see, e.g., *Smith v. Chanel, Inc.*, 402 F.2d 562, 563 (9th Cir. 1968) (stating that a copyist may use the originator’s mark to identify the product that it has copied), or in comparative advertisements, see *New Kids on the Block*, 971 F.2d at 306–09. This fair use doctrine applies in cyberspace as it does in the real world. See *Radio Channel Networks, Inc. v. Broadcast.Com, Inc.*, No. 98 Civ. 4799, 1999 WL 124455, at *5-*6 (S.D.N.Y. Mar. 8, 1999); *Bally Total Fitness Holding Corp. v. Faber*, 29 F.Supp.2d 1161 (C.D.Cal. 1998); *Welles*, 7 F.Supp. 2d at 1103–04; *Patmont Motor Werks, Inc. v. Gateway Marine, Inc.*, No. 96–2703, 1997 WL 811770, at *3-*4 & n. 6 (N.D.Cal. Dec. 18, 1997); see also *Universal Tel-A-Talk*, 1998 WL 767440, at *9.

In *Welles*, the case most on point, Playboy sought to enjoin former Playmate of the Year Terri Welles (“Welles”) from using “Playmate” or “Playboy” on her web site featuring photographs of herself. See 7 F.Supp. 2d at 1100. Welles’s web site advertised the fact that she was a former Playmate of the Year, but minimized the use of Playboy’s marks; it also contained numerous disclaimers stating that her site was neither endorsed by nor affiliated with Playboy. The district court found that Welles was using “Playboy” and “Playmate” not as trademarks, but rather as descriptive terms fairly and accurately describing her web page, and that her use of “Playboy” and “Playmate” in her web site’s metatags was a permissible, good faith attempt to index the content of her web site. It

accordingly concluded that her use was permissible under the trademark laws. See *id.* at 1103–04.

We agree that West Coast can legitimately use an appropriate descriptive term in its metatags. But “MovieBuff” is not such a descriptive term. Even though it differs from “Movie Buff” by only a single space, that difference is pivotal. The term “Movie Buff” is a descriptive term, which is routinely used in the English language to describe a movie devotee. “MovieBuff” is not. The term “MovieBuff” is not in the dictionary. See *Merriam-Webster’s Collegiate Dictionary* 762 (10th ed. 1998); *American Heritage College Dictionary* 893 (3d ed. 1997); *Webster’s New World College Dictionary* 889 (3d ed. 1997); *Webster’s Third New Int’l Dictionary* 1480 (unabridged 1993). Nor has that term been used in any published federal or state court opinion. In light of the fact that it is not a word in the English language, when the term “MovieBuff” is employed, it is used to refer to Brookfield’s products and services, rather than to mean “motion picture enthusiast.” The proper term for the “motion picture enthusiast” is “Movie Buff,” which West Coast certainly can use. It cannot, however, omit the space.

Moreover, West Coast is not absolutely barred from using the term “MovieBuff.” As we explained above, that term can be legitimately used to describe Brookfield’s product. For example, its web page might well include an advertisement banner such as “Why pay for MovieBuff when you can get the same thing here for FREE?” which clearly employs “MovieBuff” to refer to Brookfield’s products. West Coast, however, presently uses Brookfield’s trademark not to reference Brookfield’s products, but instead to describe its own product (in the case of the domain name) and to attract people to its web site in the case of the metatags. That is not fair use.

VI

Having concluded that Brookfield has established a likelihood of success on the merits of its trademark infringement claim, we analyze the other requirement for preliminary injunctive relief inquiry, irreparable injury. Although the district court did not address this issue, irreparable injury may be presumed from a showing of likelihood of success on the merits of a trademark infringement claim. [Citations omitted.] Preliminary injunctive relief is appropriate here to prevent irreparable injury to Brookfield’s interests in its trademark “MovieBuff” and to promote the public interest in protecting trademarks generally as well.

VII

As we have seen, registration of a domain name for a Web site does not trump long-established principles of trademark law. When a firm uses a competitor’s trademark in the domain name of its web site, users are likely to be confused as to its source or sponsorship. Similarly, using a competitor’s trademark in the metatags of such web site is likely to cause what we have described as initial interest confusion. These forms of confusion are exactly what the trademark laws are designed to prevent.

Accordingly, we reverse and remand this case to the district court with instructions to enter a preliminary injunction in favor of Brookfield in accordance with this opinion.

12.6.2 Cybersquatting

Many imaginative entrepreneurs have registered domain names and then either used them to create a definite market (*e.g.*, MP3.com) or have sold them at auction (*e.g.*, Loans.com.)

However, there is a third category: the “cybersquatter,” a glaring example of which is encountered in *Panavision International L.P. v. Toeppen*, 141 F.3d 1316 (9th Cir. 1999), one of a number of cases involving an individual who had the foresight to register domain names identical to the names of well-known businesses and then demanded payment to relinquish them. In the cited case, defendant Toeppen was found to have infringed as well as diluted Panavision’s federally-registered trademark (and to have violated the California anti-dilution statute, Business & Professions Code 14330). The facts demonstrate Toeppen’s ingenuity: At his website, “Panavision.com,” Toeppen displayed photographs of a town named Pana, in Illinois. Panavision discovered the website when it attempted to register “Panavision” as its own domain name. When Panavision protested, Toeppen demanded \$13,000 to settle. When Panavision refused, Toeppen proceeded to register another of Panavision’s registered trademarks, “Panaflex,” as a domain name. Panavision was able to obtain jurisdiction over Toeppen (an Illinois domiciliary) in California, and secured summary judgment, which the Ninth Circuit affirmed. “A domain name,” Judge Thompson stated, “is similar to a ‘vanity number’ that identifies its source. . . . It does not matter that [Toeppen] did not attach the marks to a product. Toeppen’s commercial use was his attempt to sell the trademarks themselves [and this was sufficient] [u]nder the Federal Trademark Dilution Act and the California Anti-dilution statute. . . . A significant purpose of a domain name is to identify the entity that owns the web site. . . . [P]otential customers of Panavision will be discouraged if they cannot find its web page by typing in ‘Panavision.com,’ but instead are forced to wade through hundreds of web sites. This dilutes the value of Panavision’s trademark.”

In November 1999, Congress enacted (and the president signed into law) the Anticybersquatting Consumer Protection Act (S. 1255), which allows injured parties to bring an *in rem* action against any domain name registered in violation of the act and permits recovery of civil damages for cybersquatting.

However, cybersquatting does not occur in every instance in which two persons or entities wish to use the same name. In *Avery Dennison Corporation v. Sumpton*,—F.3d—(9th Cir. 1999), defendant Sumpton (who registered common surnames as domain names and sold them off to third parties for vanity use for an annual fee) was allowed to register the domain names “avery.com” and “dennison.com,” despite the fact that plaintiff Avery Dennison Corporation sold office products bearing the “Avery Dennison” trademark. In finding for Sumpton, the court distinguished the *Toeppen* case in three ways: (1) Toeppen had not claimed that Panavision’s mark was insufficiently famous to meet the standard of the Federal Anti-Dilution Act, (2) Toeppen did not contest Panavision’s claim that he sought to profit by selling a famous trademark, and (3) Toeppen’s dilutive registration involved the “top level domain” (i.e., com) rather than “net.” Avery Dennison had demonstrated that its mark was distinctive, but had failed to demonstrate that it was sufficiently famous to qualify under the Federal Anti-Dilution Act. Under the Lanham Act, a mark that is “primarily merely a surname” is not protectable unless it acquires secondary meaning (15 U.S.C. 1052 (e)(4)(f) (1994)). The court was not persuaded that this had happened in the case of Avery Dennison. In contrast to Toeppen, Sumpton was seeking to capitalize on the value of the individual surnames, not the value of Avery Dennison’s trademark. Therefore, the “commercial use” element present in the *Toeppen* case was lacking.

According to commentator David P. Miranda: “In what may be the most con-

trouersial aspect of the decision, the court found a significant distinction between registering under the TLD.net, which applies to networks, rather than .com, which applies to commercial entities” (David P. Miranda, “Use of Trademark Dilution Act Limited in Domain Name Litigation,” *ABA IPL Newsletter*, 18, 1 (Fall 1999), p. 24).

NOTES

1. Netcom Solutions Inc. is no longer the only entity authorized to register Internet domain names. In 1998, the National Telecommunication and Information Administration recognized Internet Corporation for Assigned Names and Numbers (ICANN) “to oversee the present and future distribution and management of domain names and Internet Protocol numbers on the Internet.” Neil Randall, “The Name Game,” *PC Magazine* November 2, 1999, p. 247.

2. It is important to remember that “most nations award trademark rights on a first-to-register—as opposed to a first-to-use—basis, [and, therefore,] a U.S. mark owner seeking to exploit the Internet as a cost-effective, expeditious means of creating domestic goodwill for the mark will simultaneously jeopardize its global trademark rights unless it has preceded its Net broadcast with universal trademark filings.” J. Thomas Warlick IV, “Trademark Territoriality on the Internet,” *The Internet Newsletter*, November 1998, p. 5.

12.6.3 Other Internet and New Technology Litigation Involving Copyright, Trademark, and Unfair Competition

Other cases have involved a more traditional analysis of trademark and unfair competition claims. In *Playboy Enterprises, Inc. v. Frena*, the result is similar to that in the *Brookfield* and *Panavision* decisions. However, in *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 964 F.2d 965 (9th Cir. 1992), which follows *Frena*, we see a different outcome, based on the technology employed.

Playboy Enterprises, Inc. v. Frena, 839 F. Supp. 1552, 1993 U.S. Dist. LEXIS 19165 (M.D.Fla. 1993)

SCHLESINGER, DISTRICT JUDGE

[Frena operated a subscription computer bulletin board service (BBS), available for a fee or to those who purchased products from Frena. Subscribers could browse the BBS’ directories, as well as download material, much of which was “adult subject matter.”] One hundred seventy of the images that were available on BBS were copies of photographs taken from [Playboy Enterprises, Inc.] PEI’s copyright materials [without authorization]. Defendant Frena states . . . that he never uploaded any PEI’s photographs onto BBS and that subscribers to BBS uploaded the photographs. . . . He states that as soon as he was served with a summons and made aware of this matter, he removed the photographs from BBS and has since that time monitored BBS to prevent additional photographs from being uploaded. . . .

I. Copyright Infringement

. . . The infringing photographs are essentially exact copies . . . In many cases, the only difference is that PEI’s written text appearing on the same page of the photographs has been removed from the infringing copy. . . . Public distribution of a copyrighted work is a right reserved to the copyright owner, and usurpation of that right constitutes copyright infringement. . . . There is no dispute that De-

fendant Frena supplied a product containing unauthorized copies of a copyrighted work. It does not matter that Defendant Frena claims that he did not make the copies himself. See Jay Dratler, Jr., *Intellectual Property Law: Commercial, Creative and Industrial Property* 6.03 [3], at 6–15 (1991) [hereafter “Dratler”].

Furthermore, the “display” rights of PEI have been infringed upon by Defendant Frena. See 17 U.S.C. 106(5). The concept of display is broad. See 17 U.S.C. 1010. It covers “the projection of an image on a screen or other surface by any method, the transmission of an image by electronic or other means, and the showing of an image on a cathode ray tube, or similar viewing apparatus connected with any sort of information storage and retrieval system.” H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64 (Sept. 3, 1976), reprinted in 1976 *U.S. Code Cong. & Admin. News* 5659, 5677. The display right precludes unauthorized transmission of the display from one place to another, for example, by a computer system. See H.R. Rep. No. 1476, 94th Cong., 2d Sess. 80 (Sept. 3, 1976), reprinted in 1976 *U.S. Code Cong. & Admin. News* 5659, 5694; Dratler, 6.01[4] at 6–24.

“Display” covers any showing of a “copy” of the work, “either directly or by means of a film, slide, television image or any other device or process.” 17 U.S.C. 101. However, in order for there to be copyright infringement, the display must be public. A “public display” is a display “at a place open to the public . . . or where a substantial number of persons outside of a normal circle of family and its social acquaintances is gathered.” Nimmer, 8.14[C], at 8–169 (1993); see *Columbia Pictures Indus., Inc. v. Redd Horne Inc.*, 749 F.2d 154 (3rd Cir. 1984).

Defendant’s display of PEI’s copyrighted photographs to subscribers was a public display. Though limited to subscribers, the audience consisted of “a substantial number of persons outside of a normal circle of family and its social acquaintances.” . . . See also *Thomas v. Pansy Ellen Products*, 672 F. Supp. 237, 240 (W.D. North Carolina 1987) (display at a trade show was public even though limited to members); *Ackee Music, Inc. v. Williams*, 650 F. Supp. 653 (D.Kan. 1986) (performance of copyrighted songs at defendants’ private club constituted a public performance).

[The court proceeded to reject Frena’s “fair use” defense. Among his observations:]

There is no doubt that the photographs in Playboy magazine are an essential part of the copyrighted work. The Court is not implying that people do not read the articles in PEI’s magazine. However, a major factor to PEI’s success is the photographs in its magazine. By pirating the photographs for which PEI has become famous, Defendant Frena has taken a very important part of PEI’s copyrighted publications. . . .

Obviously, if this type of conduct became widespread, it would adversely affect the potential market for the copyrighted work. Such conduct would deny PEI considerable revenue to which it is entitled for the service it provides. . . . It does not matter that Defendant Frena may have been unaware of the copyright infringement. Intent to infringe is not needed to find copyright infringement. Intent or knowledge is not an element of infringement, and thus even an innocent infringer is liable for infringement; rather, innocence is significant to a trial court when it fixes statutory damages, which is a remedy equitable in nature. See *D.C. Comics, Inc. v. Mini Gift Shop*, 912 F.2d 29 (2d Cir. 1990).

Frena argues that his commercial use was so insignificant as to justify holding for him under the principle of *de minimis non curat lex*. The Court disagrees.

The detrimental market effects coupled with the commercial-use presumption negates the fair use defense. . . .

II. Trademark Infringement Under

15 U.S.C. 1114

In addition to the use of PEI's copyrighted photographs on BBS, PEI's registered trademarks, PLAYBOY and PLAYMATE were used to identify many of the files containing the photographs. Furthermore, PEI's text was removed from the photographs and Defendant Frena's name, Techs Warehouse BBS, and telephone number were placed on PEI's copyrighted photographs. This is uncontested. . . .

Defendant Frena. . . contends that when a subscriber uploads the material onto BBS, the same subscriber provides a description of the uploaded material for the BBS index. Defendant Frena contends that he himself has never placed the words "Playboy" or "Playmate" onto BBS. Defendant Frena further alleges that he, innocently and without malice, allowed subscribers to upload whatever they wanted on BBS.

[The Court proceeded to analyze the factors that determined whether a trademark was protectible, and concluded that the marks were suggestive of the qualities of the magazines, highly distinctive with consumers, and entitled to a high degree of protection.]

The greater the similarity between products and services, the greater the likelihood of confusion [the test for trademark infringement]. See *Exxon Corp. v. Texas Motor Exchange of Houston, Inc.*, 628 F.2d 500, 505 (5th Cir. 1980). Defendant Frena's product consisted of computer images of nude women. Of course, this is the core of PEI's business. Even though Defendant Frena's photographs were available in a different medium than Plaintiff's, the services both parties provided were virtually identical.

A finding that Defendant adopted a mark with the intent of deriving benefit from the reputation of Plaintiff's service or product may alone be enough to justify an inference that there is confusing similarity. See *Ambrit, Inc.*, 812 F.2d at 1542. Defendant contends that he did not intend to use Plaintiff's mark. However, a showing of intent or bad faith is unnecessary to establish a violation of 114(a). See *Chanel, Inc. v. Italian Activewear of Florida, Inc.*, 931 F.2d 1472, 1476, n. 4 (citing *Original Appalachian Artworks, Inc. v. The Toy Loft*, 684 F.2d 821, 831-32 (11th Cir. 1982)).

Even though a guilty state of mind is relevant evidence of trademark infringement, an innocent state of mind is irrelevant on the issue of likelihood of confusion since the lack of intent to deceive does nothing to alleviate the confusion precipitated by similarity of trademarks. See 3A Rudolf Callman, *The Law of Unfair Competition, Trademarks and Monopolies*, 20.49, at 385 (4th ed. 1993) [hereafter "Callman"].

"Although evidence of actual confusion is not necessary to a finding of likelihood of confusion, it is nevertheless the best evidence of likelihood of confusion." *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 978 (11th Cir. 1983) (quoting *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 242, 263 (5th Cir.), *cert denied*, 449 U.S. 899, 101 S.Ct. 268, 66 L.Ed.2d 129 (1980)). Actual confusion by a few customers is evidence of likelihood of confusion by many customers, See

Freedom Sav. and Loan Ass'n., 757 F.2d at 1185. Therefore, a plaintiff usually will not have to prove more than a few incidents of actual confusion. See *id.*

In its Motion for Summary Judgment, Plaintiff has not shown any evidence of actual confusion among consumers. However, it is not necessary to prove actual confusion on the part of customers. It is just that if evidence of actual confusion is available, it is so highly probative of likelihood of confusion that it can rarely be ignored.

An examination of the [four factors in the trademark analysis] indicates that Defendant Frena's use of PEI's marks is likely to confuse consumers. Defendant Frena is not merely using marks similar to those of Plaintiff, Defendant Frena is using the exact marks registered to Plaintiff.

This case involves a suggestive mark entitled to the strongest protection. Defendant Frena used the identical mark of Plaintiff and the services involved were virtually identical. Each of these elements tends to show a likelihood of confusion. It is likely that customers of Defendant Frena would believe that PEI was the source of Defendant Frena's images and that PEI either sponsored, endorsed or approved Defendant Frena's use of PEI's images.

It is well established that "falsely suggesting affiliation with the trademark owner in a manner likely to cause confusion as to source of sponsorship constitutes infringement." *Burger King v. Mason*, 710 F.2d 1480, 1492 (11th Cir. 1983), *cert. denied*, 465 U.S. 1102, 104 S.Ct. 1599, 80 L.Ed.2d 130 (1984). Further, "the law is established that falsely suggesting the existence of affiliation with a well-known business by usurping the latter's good-will constitutes both trademark infringement and unfair competition." *Showtime/The Movie Channel v. Covered Bridge Condominium Assoc., Inc.*, 693 F. Supp. 1080, 1089 (S.D.Fla. 1988) [hereafter "*Showtime*"] (quoting *Volkswagenwerk Aktiengesellschaft v. Tatum*, 344 F. Supp. 235, 237 (S.D.Fla. 1972)). [The Court therefore found that Defendant had infringed Plaintiff's trademarks.]

III. Unfair Competition Under

15 U.S.C. 1125(a)

... There are similarities between the analysis required for trademark infringement and unfair competition. However, [the Lanham Act] unfair competition claim is broader. [Citations omitted.]

15 U.S.C. 1125(a) is designed to protect against a broader range of deceptive or unfair trade practices than 15 U.S.C. 1114. In addition, both sections require the same test to determine whether the particular actions complained of are violative of their terms [*Showtime* at 1090]. Thus, as a general rule, the same acts which support an action for trademark infringement also support an action for unfair competition. See *Babbitt Electronics, Inc. v. Dynascan Corp.*, 828 F. Supp. 944, 957 (S.D.Fla. 1993); *Marathon Mfg. Co. v. Enerlite Products Corp.*, 767 F.2d 217 (5th Cir. 1985). Therefore, it appears that Defendant Frena violated 15 U.S.C. 1125(a) ... by falsely inferring and describing the origin of PEI's photographs. Defendant Frena makes it appear that PEI authorized Defendant Frena's product. Furthermore, the removal of PEI's trademarks from the photographs constitutes "reverse passing off." 3A Callman 21.18, at 170.

PEI's trademarks were obliterated from the photographs, and then Defendant Frena attempted to take credit for Plaintiff's work by placing its own advertisement with its phone number on some of the photographs. Thus, PEI has been

denied the right to public credit for the success and quality of its goods. Reverse passing off is a violation of section 43(a) of the Lanham Act. See *Roho, Inc. v. Marquis*, 902 F.2d 356 (5th Cir. 1990); *Debs v. Meliopoulos*, 1991 U.S. Dist LEXIS 19864 (N.D.Ga. 1991).

There is no liability for reverse passing off when a defendant modifies a product to such an extent that the defendant converts it into something different from the original product. Defendant Frena, however, did not convert PEI's product to such an extent that it could be considered different in kind from PEI's product. . . .

Defendant Frena's actions of deleting Plaintiff's text from the photographs, adding his own text to some of the photographs and appropriating PEI's photographs without attribution to the copyright owner violated Section 43(a) of the Lanham Act. Defendant Frena competed unfairly with Plaintiff, violating 15 U.S.C. 1125(a).

[The Court proceeded to grant plaintiff's motions for partial summary judgment for copyright infringement, trademark infringement, and Lanham Act violations.]

NOTE

A similar result was reached in *Sega Enterprises Ltd. v. MAPHIA*, 857 F. Supp. 679 (N.D.Cal. 1994), an action for copyright and trademark infringement and for violation of California's trade name (Business & Professions Code 14400 *et seq.*) and unfair competition law (Business & Professions Code 14210, 17200–17203), brought by a video game manufacturer against the operator of an electronic bulletin board with approximately 400 subscribers, some of whom uploaded and downloaded Sega's video games via the MAPHIA bulletin board (which listed them using the Sega trademarks). There was evidence that MAPHIA was aware of and solicited such activity and sometimes charged fees (or bartered) for downloading the material, and sold devices that could be used to make additional copies of the games. While the copiers had other uses, the court found that their primary purpose was to copy games.

In granting a preliminary injunction, the court observed that in addition to constituting unauthorized copying, such activity (which also included alterations to the games) "deprives Sega of control over the quality of video games bearing its SEGA and other trademarks [and t]he effect on Sega's reputation and market for video game cartridges may be substantial and immeasurable" (at 684). In addition to receiving compensation directly, defendant profited indirectly, through (1) increased prestige for its bulletin board, (2) increased sales of a video game copier and other goods or services sold by the defendant, and (3) increased sales of telephone calling card numbers sold by the defendant.

Additionally, the court found that users would be likely to confuse the unauthorized copies downloaded from the bulletin board with genuine Sega video game programs.

Notwithstanding the foregoing cases, there are situations in which the mere fact that the use of certain goods or services impacts on the materials of others will not result in liability. This is illustrated by the *Galoob* case; however, as we see in the *Midway* note that follows, liability will attach where protected materials are altered or copied in the course of rendition of services.

Lewis Galoob Toys, Inc. v. Nintendo of America, Inc., 964 F.2d 965 (9th Cir. 1992)

CIRCUIT JUDGE FARRIS

Nintendo of America appeals the district court's judgment following a bench trial (1) declaring that Lewis Galoob Toys' Game Genie does not violate any Nintendo

copyrights and dissolving a temporary injunction and (2) denying Nintendo's request for a permanent injunction enjoining Galoob from marketing the Game Genie . . . We affirm.

Facts

The Nintendo Entertainment System is a home video game system marketed by Nintendo. To use the system, the player inserts a cartridge containing a video game that Nintendo produces or licenses others to produce. By pressing buttons and manipulating a control pad, the player controls one of the game's characters and progresses through the game. The games are protected as audiovisual works under 17 U.S.C. 102(a)(6).

The Game Genie is a device manufactured by Galoob that allows the player to alter up to three features of a Nintendo game. For example, the Game Genie can increase the number of lives of the player's character, increase the speed at which the character moves, and allow the character to float above obstacles. The player controls the changes made by the Game Genie by entering codes provided by the Game Genie Programming Manual and Code Book. The player can also experiment with variations of these codes.

The Game Genie functions by blocking the value for a single data byte sent by the game cartridge to the central processing unit in the Nintendo Entertainment System and replacing it with a new value. If that value controls the character's strength, for example, then the character can be made invincible by increasing the value sufficiently. The Game Genie is inserted between a game cartridge and the Nintendo Entertainment System. The Game Genie does not alter the data that is stored in the game cartridge. Its effects are temporary.

Discussion

The Copyright Act confers upon copyright holders the exclusive right to prepare and authorize others to prepare derivative works based upon their copyrighted works. Nintendo argues that the district court erred in concluding that the audiovisual displays created by the Game Genie are not derivative works. . . .

A derivative work must have "form" or permanence. The Copyright Act defines a derivative work as follows:

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work."

The examples of derivative works provided by the Act all physically incorporate the underlying work or works. The Act's legislative history similarly indicates that "the infringing work must incorporate a portion of the copyrighted work in some form."

Our analysis is not controlled by the Copyright Act's definition of "fixed." The Act defines copies as "material objects, other than phonorecords, in which a work is fixed by any method." The Act's definition of "derivative work," in contrast, lacks any such reference to fixation. Further, we have held in a copyright infringement action that "it makes no difference that the derivation may not satisfy

certain requirements for statutory copyright registration itself.” A derivative work must be fixed to be protected under the Act, but not to infringe.

The argument that a derivative work must be fixed because “[a] derivative work is a work,” and “[a] work is ‘created’ when it is fixed in a copy or phonorecord for the first time,” relies on a misapplication of the Act’s definition of “created.”

A work is “created” when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

The definition clarifies the time at which a work is created. If the provision was a definition of “work,” it would not use that term in such a casual manner. The Act does not contain a definition of “work.” Rather, it contains specific definitions: “audiovisual works,” “literary works,” and “pictorial, graphic and sculptural works,” for example. The definition of “derivative work” does not require fixation.

The district court’s finding that no independent work is created is supported by the record. The Game Genie merely enhances the audiovisual displays (or underlying data bytes) that originate in Nintendo game cartridges. The altered displays do not incorporate a portion of a copyrighted work in some form. Nintendo argues that the Game Genie’s displays are as fixed in the hardware and software used to create them as Nintendo’s original displays. Nintendo’s argument ignores the fact that the Game Genie cannot produce an audiovisual display; the underlying display must be produced by a Nintendo Entertainment System and game cartridge. The Game Genie’s display has no form. Even if we were to rely on the Copyright Act’s definition of “fixed,” we would similarly conclude that the resulting display is not “embodied” in the Game Genie. It cannot be a derivative work.

Mirage Editions is illustrative. Albuquerque A.R.T. transferred artworks from a commemorative book to individual ceramic tiles. We held that “by borrowing and mounting the preexisting, copyrighted individual art images without the consent of the copyright proprietors . . . [Albuquerque A.R.T.] has prepared a derivative work and infringed the subject copyrights.” The ceramic tiles physically incorporated the copyrighted works in a form that could be sold. Perhaps more importantly, sales of the tiles supplanted purchasers’ demand for the underlying works. Our holding in *Mirage Editions* would have been much different if Albuquerque A.R.T. had distributed lenses that merely enabled users to view several artworks simultaneously.

Nintendo asserted at oral argument that the existence of a \$150 million market for the Game Genie indicates that its audiovisual display must be fixed. We understand Nintendo’s argument; consumers clearly would not purchase the Game Genie if its display was not “sufficiently permanent or stable to permit it to be perceived . . . but for a period of more than transitory duration.” But, Nintendo’s reliance on the Act’s definition of “fixed” is misplaced. Nintendo’s argument also proves too much; the existence of a market does not, and cannot, determine conclusively whether a work is an infringing derivative work. For example, although there is a market for kaleidoscopes, it does not necessarily follow that kaleidoscopes create unlawful derivative works when pointed at pro-

tected artwork. The same can be said of countless other products that enhance, but do not replace, copyrighted works.

Nintendo relies heavily on *Midway Mfg. Co. v. Arctic Int'l, Inc.* *Midway* can be distinguished. The defendant in *Midway*, Arctic International, marketed a computer chip that could be inserted in Galaxian video games to speed up the rate of play. The Seventh Circuit held that the speeded-up version of Galaxian was a derivative work. Arctic's chip substantially copied and replaced the chip that was originally distributed by Midway. Purchasers of Arctic's chip also benefitted economically by offering the altered game for use by the general public. The court acknowledged that the Copyright Act's definition of "derivative work" must be stretched to accommodate speeded-up video games. Stretching that definition further would chill innovation and fail to protect "society's competing interest in the free flow of ideas, information and commerce."

In holding that the audiovisual displays created by the Game Genie are not derivative works, we recognize that technology often advances by improvement rather than replacement. Some time ago, for example, computer companies began marketing spell-checkers that operate within existing word processors by signaling the writer when a word is misspelled. These applications, as well as countless others, could not be produced and marketed if courts were to conclude that the audiovisual display of a word processor and spell-checker combination is a derivative work based on the display of the word processor alone. The Game Genie is useless by itself; it can only enhance, and cannot duplicate, a Nintendo game's output. Such innovations rarely will constitute derivative works under the Copyright Act.

[Circuit Judge Rymer concurred in the judgment.]

NOTES

1. *Midway Mfg. Co. v. Arctic Int'l, Inc.*, 704 F.2d 1009 (7th Cir.), *cert. denied*, 464 U.S. 823 (1983), discussed in *Galoob*, involved defendant's sale of circuit boards to licensees of plaintiff's arcade video games. Because the defendant's device allowed the plaintiff's game to speed up, licensees were able to run the games more often and thereby derive greater revenues than would have been the case had the rate of play not been accelerated. The court held that the speeded-up game was a derivative work ("a substantially different product from the original game") requiring the consent of the original copyright proprietor.

2. So-called reverse engineering, in which a competitor cracks a software code in order to permit a company's products to be displayed in other formats was upheld by the Ninth Circuit in *Sony Computer Entertainment v. Connectix Corporation*, 203 F.3d 596 (9th Cir. 2000). The court found that "Connectix' reverse engineering of the Sony [copyrighted software program that operates its PlayStation] extracted from a Sony PlayStation console purchased by Connectix's engineers is protected as a fair use. Other intermediate copies of the Sony [program] made by Connectix, if they infringed Sony's copyright, do not justify injunctive relief . . . the object code of a program may be copyrighted as expression . . . but it also contains ideas and performs functions that are not entitled to copyright protection." Disassembly of the device in order to gain access to the underlying ideas was protected. See, also, *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1993).

3. The patent laws provide potential protection for online entrepreneurs. Amazon.com, for example, obtained a patent on its One-Click technology, which simplifies the ordering of goods, then sued its largest competitor, barnesandnoble.com, to prevent it from instituting a similar single-step purchase system which, Amazon.com contended, infringed its patent. At this writing, the suit is still pending.

12.7 AGREEMENTS ENTERED INTO OVER THE INTERNET

Computer software comes packaged in materials that include terms and conditions of use, commonly referred to as “shrinkwrap” agreements. Websites commonly include so-called clickwrap agreements, which require the potential visitor to agree to a specific set of terms and conditions prior to being admitted. The content and enforceability of such agreements is discussed in the following portion of an article, “Recent Developments in Internet Law,” which is reprinted with the kind permission of Rob Hassett, partner of Hassett, Cohen, Goldstein & Port, LLP located in Atlanta, Georgia. The article was written by Rob Hassett and Suellen Bergman and originally appeared in the materials provided at the 5th Annual Intellectual Property Law Institute sponsored by the Institute of Continuing Legal Education in Georgia in November 1999. The complete article is available online at <www.internetlegal.com> and appears here by permission of the authors.

What Constitutes an Enforceable Agreement Entered into over the Internet?

by Rob Hassett and Suellen Bergman

Agreements entered into over the Internet generally take one of two forms, either an exchange of e-mail or clickwrap. Clickwrap agreements are agreements formed by a purchaser manifesting assent to the terms of an agreement online by pointing and clicking a mouse. An agreement based on an exchange of e-mails relating to subject matter which does not require a signed writing to be enforceable has been held to be effective. *See, e.g., CompuServe, Inc. v. Richard S. Patterson*, 89 F.3d 1257 (6th Cir. 1996). The controversies regarding the enforceability of agreements entered into over the Internet involve the enforceability of clickwrap agreements and whether agreements entered into over the Internet constitute signed writings.

A. Clickwrap Agreements

The authors are not aware of any cases to date that directly address the issue of whether clickwrap agreements are enforceable. There is one case that implicitly holds that they are enforceable. A number of cases deal with whether shrinkwrap agreements (which we believe provide a useful legal analogy) are enforceable. The most important issue addressed by courts today regarding the enforceability of shrinkwrap agreements is whether or not shrinkwrap agreements are pre-empted by copyright law.

1.

The case that implicitly held that clickwrap licenses are enforceable is *Hotmail Corp. v. Van Money Pie, Inc.*, (N.D. Cal. 1998) 47 U.S.P.Q. 2d (BNA) 1020 (1998); 1998 U.S. Dist. Lexis 10729 (April 16, 1998). In that case, the United States District Court for the Northern District of California granted the plaintiff a preliminary injunction in a case alleging that the defendants breached the terms of a service contract for using the plaintiff's e-mail service. Without discussing the issue, the Court in that case implicitly held that the defendants were obligated to the terms of service on the Hotmail Web site. Users of that service agreed to those terms by clicking the “I agree” button.

2.

In *ProCD, Inc., v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), ProCD developed and sold copies of a CD ROM containing a database of telephone numbers. The CD ROM box informed the consumers there was a shrinkwrap license inside the box. The shrinkwrap license provided that the purchaser was only receiving a li-

cense and the purchaser could not make copies of the product. Zeidenberg copied the database onto his own Web site and then provided access to the database via his Web site to customers for a fee. The Court rejected the holding of *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988), that shrinkwrap license are pre-empted by copyright law, and held that the ProCD shrinkwrap license was enforceable.¹ The Court thus provided a way for database developers to protect their databases (by contract) even though copyright law would probably not protect the database here.²

a.

Several courts have followed the *ProCD* decision: *Microstar v. Formgen, Inc.*, 942 F. Supp. 1312 (S.D. Cal. 1996) (copying from a computer game); *Hill v. Gateway 2000, Inc.* 105 F.3d 1147 (7th Cir.), *cert. denied*, 522 U.S. 808, 118 S.Ct. 47, 139 L.Ed.2d 13 (1997) (shrinkwrap license sent with a Gateway computer); *Brower v. Gateway 2000, Inc.*, 246 A.D. 2d 246, 676 N.Y.S. 2d 569, 37 U.C.C. Rep. Serv. 2d (CBC) 54 (N.Y. App. Div. 1st Dep't 1998) (allowed Gateway 2000 to require that any disputes be resolved by arbitration in Chicago, Illinois); and *Mortenson Co., Inc. v. Timberline Software Corp.*, 93 Wash. App. 819, 831, 970 P.2d 803, 809 (1999) (upheld a shrinkwrap license agreement, included in the software, which was fairly standard and contained an "accept-or-return" provision).³

b.

Note that Section 112 of the Uniform Computer Information Transactions Act (UCITA), discussed *infra*, would modify *ProCD* somewhat because UCITA provides that where a mass-market purchaser licensee does not have an opportunity to review a mass-market license or a copy of it before becoming obligated to pay and does not agree to the license after having the opportunity to review it, the licensee is entitled to return the product and (1) is entitled to reimbursement of any reasonable expenses incurred in complying with the licensor's instructions for return or destruction of the computer information or, in the absence of instructions, incurred for return postage or similar reasonable expense in returning it; and, in some circumstances, (2) is entitled to compensation for any reasonable and foreseeable costs of restoring the licensee's system. See UCITA Section 112.

1. In *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988), the Fifth Circuit, applying Louisiana law, held that the shrinkwrap license was unenforceable. In this case, the Plaintiff, Vault Corporation, developed software for Vault Corp.'s software developer customers to embed in their software to prevent their end user customers from using the software on more than one computer. When the Vault Corporation sold its software, it included a shrinkwrap license which was expressly authorized by a Louisiana statute and prohibited reverse engineering of the software. The defendant, Quaid, purchased the software and reverse engineered it. The Fifth Circuit held that the shrinkwrap license and the related statute were unenforceable because they were "pre-empted" by copyright law. The Court's holding implies that if pre-emption does not apply, then the shrinkwrap license is enforceable. Most courts that have decided the issue have held that agreements prohibiting reverse engineering and disclosure of confidential information are not pre-empted by the Copyright Act because they involve an agreement between private consenting parties, and therefore they are different from copyright which is imposed by statute. See, e.g., *Computer Associates v. Altai*, 982 F.2. 693 (2nd Cir. 1992).

2. See, e.g., *Feist Publications, Inc. v. Rural Telephone Company Service*, 499 U.S. 340, 111 S. Ct. 1282, 113 L.Ed. 2d 358 (1991). For additional materials on copyright law, see the writers' law firm Web site at <http://www.internetlegal.com>. There is some concern among commentators that to allow unlimited use of shrinkwrap and clickwrap licenses to protect material not otherwise protected by copyright law could vitiate the copyright fair use doctrine.

3. This case also dealt with the enforceability of a limitations of remedies clause contained in a shrinkwrap license.

A case which tangentially addressed the shrinkwrap issue is *Step-Saver Sys. v. Wyse Tech. and The Software Link*, 939 F.2d 91 (3rd Cir. 1991), where the Court applied the “battle of the forms” rules and determined that the parties’ agreement was complete when the goods were ordered via telephone coupled with the purchase order. The Court held that the shrinkwrap license was sent after the fact and thus had no effect. The Software Link’s shrinkwrap license was also held unenforceable for the same reason in *Arizona Retail Sys., Inc. v. The Software Link*, 831 F. Supp. 759 (D. Ariz. 1993).

3.

Generally, it appeared that the copyright pre-emption barrier raised in *Vault Corp. supra*, had been buried by *ProCD* and its progeny. However, in a case involving claims relating to the pitching of a marketing concept (which did not involve any kind of online agreement but could have repercussions in the online context), the United States District Court for the Western District of Michigan held that the claim was pre-empted by copyright law. See *Wrench, LLC v. Taco Bell Corp.*, 51 F. Supp. 2d 840 (W.D. Mich. 1999), 51 U.S.P.Q.2d (BNA) 1238. The Court denied the claim of a company that had pitched the Chihuahua concept to Taco Bell and claimed Taco Bell used the concept without paying for it. The court held that any implied contract was pre-empted by copyright law. The Court distinguished *ProCD* on the somewhat nebulous grounds that the *ProCD* agreement was in effect at the time of purchase (i.e. before use of the product) whereas the Taco Bell agreement was not supposed to take effect unless Taco Bell started using the Chihuahua concept (i.e., after use of the concept). Note that the use or copying of a product (i.e., a copyrighted item) is the same action which triggers liability under copyright law. This case is in line with an earlier Louisiana case regarding shrinkwrap licenses: *Vault Corp., supra*.

B. Signed Writings

Both clickwrap agreements and e-mail exchanges may cover transactions where signed writings are required under the applicable statute of frauds. A number of states now have some kind of a digital signature act. Most of these acts require that, to satisfy any statute of frauds, the electronic signature must be:

1. Unique to the person using it,
2. Capable to verification, and
3. Under the sole control of the person using it.

See, eg., Georgia Electronic and Signatures Act at O.C.G.A. 10–12–3 et seq. as originally enacted; the Utah Digital Signatures Act, Utah Code Ann. 46–3–101, et seq. (Supp. 1996). Before the enactment of O.C.G.A. 10–12–3 et seq., an argument could be made in Georgia that anything intended to be a signature would constitute a signature. See, e.g., *Trout v. Nash AMC-Jeep, Inc.*, 157 Ga. App. 399, 278 S.E.2d 54 (1981), which held that the printing of a company name at the bottom of a form constituted a signature, permitting a car dealer to meet certain state law requirements of providing a signed form. The latest developments in this area are discussed below.

I.

The newest version of Georgia’s statute,⁴ Electronic Records and Signatures, which provides for broad acceptance of electronic signatures, reads, in pertinent part, as follows:

4. See O.C.G.A. 10–12–2.

- (a) Records and signatures shall not be denied legal effect or validity solely on the grounds that they are electronic.
- (b) In any legal proceeding, an electronic record or electronic signature shall not be inadmissible as evidence solely on the basis that it is electronic.
- (c) When a rule of law requires a writing, an electronic record satisfies that rule of law.
- (d) When a rule of law requires a signature, an electronic signature satisfies that rule of law.
- (e) When a rule of law requires an original record or signature, an electronic record or electronic signature shall satisfy such rule of law.
- (f) Nothing in this Code section shall prevent a party from contesting an electronic record or signature on the basis of fraud.

O.C.G.A. 10-12-4 provides further as follows: The term “electronic signature” is defined as “a signature created, transmitted, received, or stored by electronic means and includes but is not limited to a secure electronic signature.”⁵ O.C.G.A. 10-12-3. The term “record” is defined as “information created, transmitted, received, or stored either in human perceivable form or in a form that is retrievable in human perceivable form.” O.C.G.A. 10-12-3.

2.

The proposed Uniform Electronic Transactions Act (UETA), which provides that “an electronic record or signature may not be denied legal effect or enforceability solely because it is in electronic form” and that “if a law requires a record to be in writing, an electronic record satisfies the law”⁶ has been approved by the National Conference of Commissioners on Uniform State Laws, and the Conference has voted to present the Act to states for adoption.⁷

The Electronic Transaction Act has been passed in California. California’s Governor signed the Uniform Electronic Transactions Act on September 16, 1999, and it was chaptered (Chapter No. 428) by the Secretary of State on the same date. *See* CA S.B. 820.

3.

The Uniform Computer Information Transactions Act (former proposed UCC Article 2B). The legal rules for computer information transactions which was to be

5. A “secure electronic signature” is defined as “an electronic or digital method executed or adopted by a party with the intent to be bound by or to authenticate a record, which is unique to the person using it, is capable of verification, is under the sole control of the person using it, and is linked to data in such a manner that if the data are changed the electronic signature is invalidated.” O.C.G.A. 10-12-3.

6. The Act provides, in Section 106, Legal Recognition of Electronic Records, Electronic Signatures, and Electronic Contracts

- (a) A record or signature may not be denied legal effect or enforceability solely because it is in electronic form.
- (b) A contract may not be denied legal effect or enforceability solely because an electronic record was used in its formation.
- (c) If a law requires a record to be in writing, or provides consequences if it is not, an electronic record satisfies the law.
- (d) If a law requires a signature, or provides consequences in the absence of a signature, the law is satisfied with respect to an electronic record if the electronic record includes an electronic signature. *See* UETA Sections 201, 301, and 401(a) (1998 Annual Meeting Draft); Uncitral Model Articles 5, 6, and 7.

7. A copy of the proposed act is available online at wvc.law.upenn.edu/library/ulc/ulc.htm.

promulgated by the National Conference of Commissioners on Uniform State Laws⁸ as Article 2B of the Uniform Commercial Code, instead is being proposed as the Uniform Computer Information Transactions Act (UCITA).⁹ The Act is the first general commercial statute to provide comprehensive procedures and rules for computer software licensing. Most of those rules would also be appropriate for a broad range of transactions outside UCITA's scope, and it is expected that they will form the model for several future articles of the UCC as they did for the Uniform Electronic Transactions Act (UETA), which was approved at the same time.¹⁰ The provisions include:

an express recognition of electronic records as the equivalent of writings, rules for attribution of electronically generated messages, methods for establishing authentication, rules for allocating losses caused by electronic errors, and rules for determining when electronic messages are deemed to be effective. A particularly noteworthy provision recognizes the enforceability of agreements made by the interaction of "electronic agents," even if no human was directly involved in either or both sides of the "negotiation."¹¹

Software publishers and computer manufacturers strongly support UCITA, but it is as strongly opposed by a wide range of groups. UCITA is controversial because: UCITA represents a movement toward licensing of information in its many forms and away from the sale of copies as traditionally understood under copyright law. UCITA would enforce the broad [consumer] use of "shrink-wrap" and computer "click-on" licenses (called "mass-market licenses" in UCITA). By licensing rather than selling something, a vendor can wield more control of the downstream use of the product. Placing new constraints on the use of information in mass-market transactions can, in turn, constrain the use of information for important public purposes such as democratic speech, education, scientific research, and cultural exchange. Many believe that UCITA fails to appreciate the strong public interest in prohibiting new restrictions on information exchange.

The scope of UCITA is extremely broad. "Computer information," under UCITA, includes everything from copyrighted expression, such as stories, computer programs, images, music and Web pages; to other traditional forms of intellectual property such as patents, trade secrets, and trademarks; to newer digital creations such as online databases and interactive games. Although the statute claims to be limited to information in electronic form, it allows other transactions to "opt-in" to being governed by UCITA. Many legal community commentators are of the opinion that UCITA (or something like it) is not necessary or, at least, it is premature. This view is based on the opinion that existing common law and copyright law are developing appropriately to handle the new types of information-based transactions emerging in the information economy.

The American Law Institute (ALI), consumer advocacy groups, libraries, and the Federal Trade Commission have continued to criticize and/or oppose the UCITA proposal and prior UCC 2B drafts, yet their concerns have not been addressed. Instead, NCCUSL intends to push the UCITA proposal as quickly as possible to state legislatures.¹²

8. The National Conference of Commissioners on Uniform State Laws (NCCUSL) and the American Law Institute (ALI) are responsible for overseeing updates to the Uniform Commercial Code. In 1995, a committee was formed to draft a separate UCC article to specifically address software licensing and electronic commerce. Various versions have been proposed and debated. The goal is to propose a version that most, if not all, of the state legislatures will adopt.

9. UCITA was approved by the National Conference of Commissioners on Uniform State Laws (NCCUSL) at its annual meeting in Denver at the end of July, 1999. Foster, Ed, UCITA Author Does Some Moonlighting for Money, *Courtesy of Microsoft, INFO WORLD: THE GRIPE LINE*, Oct. 11, 1999.

10. Graff, George L., *Controversial Computer Act Offers Major Innovations: Proposed Uniform Statute for the Information Age Is Approved*, *COMPUTER LAW STRATEGIST*, Aug. 1999, Vol. XVI, No. 4.

11. *Id.*

12. A Quick Look at the Uniform Computer Information Transactions Act (UCITA), *AMERICAN ASSOCIATION OF LAW LIBRARIES: WASHINGTON AFFAIRS*, July 15, 1999. See also <http://www.ll.georgetown.edu/allwash/UCITAA2html>.

4.

Ballas v. Tedesco, 41 F. Supp. 2d 531 (D.N.J. 1999). This case addresses the issue of whether an exchange of e-mails can satisfy the requirement that assignments of copyrights are not effective unless they are in writing and signed by the transferor. See, Copyright Act 201(d). In this case, Tedesco wanted to produce a CD of dance music for Ballas. Ballas would pay Tedesco a fee for the musical arrangements and production of the CD, and Ballas would have the exclusive right to manufacture copies of the CD for sale. Negotiations, via e-mail, were unsuccessful, and the parties did not agree on terms of the arrangement. The parties agreed that the music content copyright belonged to the Defendant. The Court enjoined the Plaintiff from making or selling the music on the CD because the Court found that there was no valid assignment of the copyright since there was no *written* assignment.

NOTES

1. Since the foregoing article was written, President Clinton signed Senate Bill S. 761, the Electronic Signatures in Global and National Commerce Act (also known as the “E-Sign Act” and the “Millennium Digital Commerce Act”), which gives electronic signatures, contracts, or other records the same legal effect as their written counterparts. Congress specifically intended that this act will provide a uniform national standard and *preempt state law*. Therefore, section 102(a) specifies that a state statute, rule, or regulation may only limit, modify, or supersede Section 101 if the state has enacted the Uniform Electronic Transactions Act (UETA) or if the state has adopted alternative procedures or requirements for electronic signatures and records that are consistent with S. 761.

The Electronic Signatures in Global and National Commerce Act contains a very liberal definition of what constitutes an electronic signature: an “electronic sound, symbol or process, attached to or logically associated with a contract or other record and executed or adopted by a person with the intent to sign the record.” S. 761, 106(5).

The act provides that an electronic signature will be as legally binding and valid as a handwritten signature; however, some transactions are excluded. Section 103 specifically excludes the following from the scope of the act’s coverage: wills, trusts and estate matters; marriage, divorce, adoption, and other family law matters; Uniform Commercial Code (UCC) other than sections 1–107 and 1–1206, Article 2 (Sale of Goods), article 2a (Leases); court documents and filings; notices terminating or canceling utility services (water, power, heat); notices of default, foreclosure, repossession, eviction, etc. regarding a primary residence; notice of cancellation or termination of health insurance or benefits or life insurance benefits; notice of a recall of a product or material failure of a product that affects health or safety; and any document requirement to accompany the transportation or handling of hazardous materials, pesticides or other toxic or dangerous materials. Section 103 (c) requires the secretary of commerce to evaluate the exemptions over three years and determine whether the exemptions are still necessary to protect consumers.

2. Recently, the appellate division of the New Jersey Superior Court has upheld the enforceability of “clickwrap” agreements in *Caspi v. The Microsoft Network LLC*, 323 N.J. Super. 118, 732 A.2d 528 (App. Div.), *cert. denied*, 162 N.J. 199, 743 A.2d 851–(1999), affirming the dismissal of a class action by subscribers to Microsoft Network (MSN) claiming breach of contract, common law fraud and consumer fraud because MSN had “rolled over” their memberships into more expensive plans than those to which they had originally subscribed, via “unilateral negative option billing,” a practice “condemned by the attorneys general of twenty-one states, including New Jersey’s, with regard to a Microsoft competitor, America Online, Inc.” The clickwrap agreements which were the gateway to MSN included a forum selection clause requiring all proceedings to be brought in (and under the laws of) the State of Washington, MSN’s home base. The trial court characterized the process:

Prospective members have the option to click “I Agree” or “I Don’t Agree” at any point while scrolling through the agreement. Registration may proceed only after the subscriber has had the opportunity to view and has assented to the membership agreement, including MSN’s forum selection clause. No charges are incurred until after the membership agreement review is completed and a subscriber has clicked on “I Agree.”

The trial court found the forum selection clause “reasonable, clear and [without] material misrepresentation.” He found that “plaintiffs were not subjected to overweening bargaining power in dealing with Microsoft and MSN. . . . Plaintiffs have shown little more than a size difference here. The on-line computer service industry is not one without competition, and therefore consumers are left with choices as to which service they select for Internet access, e-mail, and other information services.”

The appellate division agreed with these findings and with the trial court’s conclusion that the clause did not contravene public policy. Also, the appellate division observed,

there was nothing extraordinary about the size or placement of the forum selection clause text . . . [which] was presented in exactly the same format as most other provisions of the contract. It was the first item in the last paragraph of the electronic document. We note that a few paragraphs . . . were presented in upper case typeface, presumably for emphasis, but most provisions, including the forum selection clause, were presented in lower case typeface. We discern nothing . . . that can be taken as a basis for concluding that the forum selection clause was proffered unfairly, or with a design to conceal or de-emphasize its provisions. To conclude that plaintiffs are not bound by that clause would be equivalent to holding that they were bound by no other clause either, since all provisions were identically presented. Plaintiffs must be taken to have known that they were entering into a contract [and cannot] disavow particular provisions or the contract as a whole.

3. In *M.A. Mortenson Co., Inc., v. Timberline Software Corp.*, 140 Wn.2d 568, 998 P.2d 305 (2000)*, the court upheld a “shrinkwrap” license provision limiting breach of contract damages to the license fee paid for computer software. The contract terms were set forth on the outside of each diskette pouch as well as on the inside cover of the instruction manual. The court found neither substantive nor procedural unconscionability in the provision or in the manner of its presentation.

**Recon. denied* (Jul. 11 2000).

Chapter 13

THEATRE

13.1 THE THEATRE BUSINESS

At the end of the 1990s and at the beginning of the first decade of 2000, Broadway and the American theatre in general are experiencing a boom period. Although unprecedented successes have been due primarily to musicals and technological extravaganzas rather than serious drama, Broadway is profitable, popular and poised for the twenty-first century. The League of American Theatres and Producers, Inc. (the “League”) reports that for the 1998–99 season, gross receipts for Broadway were in excess of \$588,000,000, a new record high; attendance was in excess of 11,670,000, the highest ever; and thirty-eight new productions opened, an increase of five over the previous season. Not only is Broadway thriving, but touring or road show receipts were in excess of \$707,000,000 which, although not a record, were almost double the receipts of ten years ago. More than 14.6 million people attended a Broadway touring show during the 1998–99 season. (“Broadway Season Statistics and Broadway Road Tours Statistics 1998–1999” *The League of American Theatres and Producers, Inc.*)

The current mix of productions relies heavily on revivals and long-running staples. Examples of the former are *Cabaret*, *Kiss Me Kate*, and *Chicago*, revived on Broadway in 1996, whose gross proceeds exceeded \$100,000,000 by November 1999 (profits are estimated at \$30,000,000 to \$40,000,000), while examples of the latter include *Cats* (which closed in June 2000 after an 18-year run), *Les Miserables* (1987), *Miss Saigon* (1991), and *Phantom of the Opera* (1988). The continued popularity of musicals is evidenced by the lavish Disney-produced *Beauty and the Beast* and *The Lion King*. The nonmusical play is increasingly difficult to open on Broadway.

Theatre economics are formidable. A major musical incurs costs from \$5 million to \$12 million in production costs. Although straight dramas and comedies have pre-opening costs ranging in the \$1.5 to \$2.25 million area, these costs are still more than double the costs of the early 1980s. With opening night closings

all too common, investors risk a great deal; often they lose their entire investment.

Most musicals and plays depend heavily on instant success and immediate critical acclaim. Paul Simon's *The Capeman* opened to horrendous reviews and closed after only two months, at a cost of \$11,000,000. Four shows closed or announced closings immediately after a less than successful showing at the 1998–99 Tonys—*The Civil War*, *The Sound of Music*, *The Lonesome West*, and *You're a Good Man, Charlie Brown*. The significance of the Tony Awards, or perhaps the televised free advertising the Tony Awards provide by showcasing certain productions is best demonstrated by *Beauty and the Beast*. With one four-minute production number on the Sunday evening telecast of the Tony Awards, *Beauty's* one-day ticket sales on the following Monday were a record \$1,300,000. Conversely, when the Tony Awards show ran long and the production number from *It Ain't Nothing But the Blues* was cut, the show lasted only a few more months before closing with a \$1,200,000 loss. Unfortunately, financial failures are far more common than successes on Broadway.

Even when a play survives opening night, the odds are still against a lengthy run. Operating costs kill many marginal productions. To stay open, a play must present reasonable prospects that its revenues will meet running costs and will eventually pay back the investors. A large musical requires approximately 40 weeks at capacity to recoup its production costs. Small musicals and large dramatic productions require 30 weeks at capacity to recoup. The number of orchestra seats and balcony seats impact on the ticket pricing which will ultimately determine the rate of recoupment. (See "The Broadway Theatre Circa 1993," *The League of American Theatres and Producers, Inc.*) If attendance slips to 70 or 80 percent of capacity, the show is generally doomed. Even if the prospects for eventual success are positive, a Broadway show generally requires a year or more to recoup its investment. The limited run of *The Iceman Cometh* for 13 weeks would have required a sell-out every performance to produce a \$1,000,000 profit, according to Emanuel Azenberg, the play's principal producer (Jesse McKinley, "\$100 A Ticket?! Here's Why," *New York Times*, April 8, 1999, Sec. B, p.1). The allure of a smash hit keeps the investors coming back for more, but the odds are against them.

Broadway accommodates some 200,000 theatregoers per week. The number of Broadway openings in the past 50 years has declined significantly, from about 60 per season in the 1950s to less than 40 today. Economics is again a cause, aided also by the emergence of off-Broadway and even off-off-Broadway theatres. Several shows that would have originated on Broadway years ago are now first produced elsewhere. An off-Broadway production costs less than half of one on Broadway. Many plays now open in regional theatres and move to Broadway only after demonstrating some success at the regional level. A Broadway opening adds credibility and allows the nonmusical play to be sent to the regional theatres for a much broader basis of exploitation (See Bruce Weber, "Broadway's Role in the Stages of the Nation," *New York Times*, August 29, 1994, Section C, page 11). As we will see in Section 13.1.2, other alternatives to a Broadway production exist as well.

The growing importance of off-Broadway theatre productions is clear—from 1994 to 1998, every Pulitzer Prize winner for best play initially opened off Broadway (in 1997, no prize was awarded). In 1997, 25 percent of the audience for off-Broadway productions were non-New Yorkers (Robin Pogrebin, "Nary a

Drama on Broadway,” *New York Times*, Dec. 28, 1999, Sec. E, p.1). Both *Blue Man Group Tube* and *Stomp* have shown consistent appeal and staying power at off-Broadway locations. Although the theatres are smaller (500 seats as opposed to 1,000), the labor is nonunion, and ticket prices are cheaper, the New York cachet is still there and a less than enthusiastic critical review does not automatically doom the production. Off-Off-Broadway productions (defined as theatres with 99 seats or less) are flourishing as well. Small alternative theatres and productions are active all over New York City, giving adventurous and entrepreneurial talent the opportunity to produce plays without facing financial ruin (David Herskovits, “Tilting Artfully: An Off Off Broadway Manifesto,” *New York Times*, Nov. 7, 1999, Arts Section, p. 10).

Producers are reluctant to attempt an immediate plunge into Broadway, with its huge production and running costs. Even so, finding a Broadway house in which to open a new play during the peak months of September to December is no easy task. With less than 35 Broadway theatres, some productions have to wait until another play closes—an expensive proposition if the cast and other personnel are already under contract.

The number of Broadway theatres has remained relatively constant for the past thirty years. The definition of what constitutes a Broadway theatre is somewhat disputed. There is agreement that the Broadway geographic area is bounded by 53rd Street (north), 41st Street (south), 6th Avenue (east), and 8th Avenue (west), but not all theatres within that area are necessarily accorded full Broadway status. Theatres with seating capacities under 500 are often described as “middle houses.” In all, 28 houses have seating capacities above 1,000, 5 are in the 500 to 999 range, and the 5 “middle houses” are below 500. There are currently 31 full-size theatres and 3 mid-size theatres able to call themselves Broadway theatres. Although no new theatres are contemplated, there is an increased interest in Broadway real estate. The Biltmore on West 47th Street is likely to be renovated into a functioning theatre again after standing vacant since the mid 1980s following a court decision in favor of the *Nederlanders*—the prominent owners are reportedly considering transforming the Biltmore into an 1800 seat theatre. The Lyceum is also the subject of proposed renovation. In 1999, real estate developers physically moved the Empire Theatre 140 feet west of its current site on 42nd Street between Seventh and Eighth Avenues, closing 42nd Street in the process. All but the three newest of Broadway theatres (the *Marquis*, *Minskoff*, and *Gershwin*) and the *Nederlander*, *Broadway*, and *Walter Kerr* theatres are protected by landmark status for either their exteriors, interiors, or both. The intention is to save the theatres from demolition. In the early 1980s, the *Morosco* and *Helen Hayes* theatres were torn down in connection with the 42nd Street-Portman Hotel Redevelopment Project, which later produced a new theatre at the *Marriott Hotel* on Times Square. In net terms, all this meant was one less Broadway house.

Most pre-opening costs are for sets, lighting, costumes, and other staging expenses. Operating expenses cover the range of performer and artistic salaries, stagehands, and other technical salaries; royalties and fees; and administrative and advertising costs. . . .

Concurrent with the concern over rising costs is the big concern over the rising price of tickets on Broadway. The average ticket price in 1999 was \$50.45, a 6 percent increase from the 1998 average, according to statistics from the League (Paula Bernstein, “‘Year of the Play’ Brings Record B’way Revenue,” *The*

Hollywood Reporter, June 1, 1999, p. 6). By 1999 the top price for a ticket to a musical ranged from \$80 to \$90 (*Cabaret*). Although these increases are less drastic when a GNP price deflator is applied, there has still been a consistent, constant dollar increase each year.

Television has had its effects on Broadway. Television is perceived as an effective advertising medium for Broadway shows, both in New York City and elsewhere. A show's advertising budget may devote 40 to 50 percent to TV spots, which for a 30-second prime-time slot in New York means an average of \$150,000 per slot. In addition, a full-page ad in the Sunday *New York Times* in 1999 was \$74,617 for a Broadway show and the so-called ABC listings in the daily newspapers averaged about \$3,500 a week. Total advertising costs are high and continue to rise.

In addition to serving as an effective advertising medium, television provides substantial additional exposure for the theatre. It promotes the stage by televising such events as the Tony Awards, given each year for Broadway's best productions, which have become a pet project for comedian and television talk show host Rosie O'Donnell. Ms. O'Donnell further demonstrated her devotion to Broadway by doing a guest stint in the struggling production of *Dr. Seuss* to boost ticket sales. Television, particularly cable, has embraced Broadway plays with ever-greater fervor, as more and more productions are needed for straight telecasting or for adaptation. The subsidiary rights that flow to Broadway producers and investors are great lures, as television has reached out and embraced the live stage.

Not surprisingly but somewhat belatedly, the Internet is beginning to have an impact on Broadway and Off-Broadway as well. Many Broadway and Off-Broadway productions now feature their own websites (www.thephantomoftheopera.com, www.disneyonbroadway.com, www.lesmis.com). There are several mainstream sites (www.dramaguild.com, www.playbill.com, www.theatre.com, www.broadway.org) as well as alternative and non-profit theatre sites (www.here.org [Here Arts Center in Soho], www.mtc-nyc.org [Manhattan Theatre Club], www.thewoolslergroup.org) and theatre "zines" with reviews and recommendations (www.escape.com/theanet/AisleSay.html, www.curtainup.com, www.oobr.com [the Off-Off-Broadway Review] and www.theatrerreviews.com). At www.theatermania.com, a website devoted primarily to Broadway and Off-Broadway productions, there are video interviews with stars and promo previews for several popular shows. Theatermania.com gives listings of times and ticket prices for shows on and off Broadway and can provide information about shows in London, Los Angeles, Chicago and many other cities. The Internet is not solely a tool for advertising, however. The Manhattan Theatre Club ("MTC") is involved in a two-year educational project ("Theatrelink") in which high school students study a play during its production at the MTC, view video clips and then compose original scenes to be produced at other schools involved in the project. Online ticket sales have increased over the last few years, but have yet to become a major source of income. The Internet should provide a cheaper, more immediate vehicle for advertising, sales and dialogue for the theatre, but its potential is just beginning to be tapped (Scott Vogel, "For Some, All the Web's a Stage," *New York Times*, Nov. 7, 1999, Theatre section).

Broadway and touring companies are part of a larger live theatre and entertainment industry in this country. Its \$1.2 billion gross per year is approximately one-fifth of the estimated \$5 billion expended each year on live entertainment.

Live entertainment, overall, is a growing business. Broadway shows and especially their touring companies account for a steadily increasing share of the entertainment dollar.

Live theatre does not benefit from advancing technologies to the same extent as films, television, and music. There are still unions (stagehands, musicians and actors) with protective work rules, and lavish production costs (e.g., *The Lion King*). The theatre remains labor-intensive (although efforts continue to be made to cut musicians and use synthesizers in their place, as in *Contact*), requiring the same hours of devotion as was true fifty years ago. New technologies may produce more dazzling lights and intricate stagings, but these improvements add to costs rather than reduce them. Predictably, the theatre will struggle with economics in the future, as it does at present and has in the past. Before examining the broader range of legal questions, some further comments should be made about the theatre business as it relates to producers, investors, and theatre owners (Section 13.1.1); alternatives to Broadway (Section 13.1.2); and the prospective audience (Section 13.1.3).

NOTES

1. Investors in Broadway shows are typically deemed to be “sophisticated investors” and are held to a higher standard of business acumen than ordinary people. See *Belin v. Weissler*, 1998 WL 39114 (S.D.N.Y., 1998) where a lawyer from Iowa tried to recover his \$100,000 investment in *Busker’s Alley* by claiming that the producer had fraudulently inflated the amount of insurance carried on Tommy Tune, the show’s star. When Tune broke his foot prior to the opening, the show was cancelled. Judge Robert Sweet found that plaintiff, a manager of a \$40,000,000,000 mutual fund, could not claim fraud since he signed investment documents acknowledging he understood the risks in investing in the show.

2. That the Tony Awards are the most significant event on Broadway is perhaps demonstrated by a recent proceeding entitled “*Matter of Wells v. League of American Theatres and Producers, Inc.*,” 183 MBC.2d 915, 706 N.Y.S.2d 599 (N.Y. Supp. 2000). Disgruntled members of the League challenged the League’s disenfranchisement of members who had not been actively involved in a Broadway production during the previous four years, thereby denying these “inactive” members the right to participate in the Tony Award voting, their two free tickets to each show eligible for nomination, and their tickets to the awards show. Stating that “surely it cannot be said that the outcome of Tony Award voting does not affect the theatre industry,” the Court granted petitioners’ discovery requests for information relating to the league’s amendments to the by-laws which disenfranchised the non-active members. No further decision has been reported in this case.

13.1.1 Broadway Producers, Investors, and Theatre Owners

Three groups (Shubert, Nederlander, and Jujamcyn) control the New York theatre and most of the “first class” theatres around the country. These groups house the shows and frequently finance them. While the dominance of The Shubert Organization, the oldest of the three, has diminished since the U.S. Supreme Court found it guilty of multiple antitrust violations in a landmark case, *United States v. Shubert*, 348 U.S. 222 (1955), the Shubert Organization remains a major “player” on Broadway.

Theatre owners and producers such as Shubert and Nederlander often seek additional backers for shows to supplement their own financing. Outside inves-

tors, however, have changed in character over the years. Extant records about plays produced in earlier years suggest a casual way of doing business, involving several backers coming in on a whim or out of self-interest. *Arsenic & Old Lace* enjoyed a recent revival, the new production coming in at a now modest \$700,000. The original production, which opened January 10, 1941, cost \$37,000 and required 23 backers to finance its opening, including the producer Russel Crouse (\$500), the director Howard Lindsey (\$2,500), the press agent (\$500), the journalist (\$500), and one of the principal stars, Boris Karloff (\$5,000).

The trend today is away from individual backers. The more likely scenario involves institutional investors. Frequent institutional investors outside the immediate legitimate theatre group include Disney, Time Warner, Columbia Pictures, various record companies, and cable television interests. Perhaps a new trend in non-entertainment related corporate investors will emerge with the recent re-naming of the Selwyn Theatre as the “American Airlines Theatre.”

An alternative to the institutional investor and the well-heeled backer is the multitude of small investors who might like to own a part of a Broadway show. (But see, *Belin v. Weissler*, above). This idea has been pursued several times in recent years, but with less-than-hoped-for success. A substantial problem is that a public solicitation of investments means compliance with both federal and state securities laws. For example, New York has its own complicated statutory provisions in its Arts and Cultural Affairs Act, which is set forth in detail in Section 13.2.

NOTES

1. For further reading about the Shubert Organization’s antitrust battles during the 1950s and the resulting consent decrees, see “The Curtain Rises on Consent Decree Modification in the Theatre Industry: *United States v. Shubert*,” 2 *Cardozo Arts & Entertainment Law Journal* 91 (1983).

2. For contrasting and informative views on theatre financing, see Elliot H. Brown and Daniel M Wasser, “A Practical Guide to Theatrical Financing,” *Entertainment & Sports Lawyer*, Fall 1998, vol. 16, no. 3, pp. 6–10 and Donald C. Farber, “Creative Financing of a Broadway Play” *New York Law Journal*, February 19, 1999, pp. 5–7.

13.1.2 Alternatives to Broadway

With Broadway production costs continually escalating, more and more authors and producers are looking elsewhere for initial production efforts. The London stage, Off-Broadway, Off-Off-Broadway, the New York workshop, and nonprofit residential theatres are all important vehicles for original productions.

Producers can save costs by having productions debut in locations other than New York. Discussed in Section 13.3 is *Gennaro v. Rosenfield*, which deals with the musical *Singin’ in the Rain*, a thoroughly American epic that nevertheless was first produced in London and later opened on Broadway. *Jekyll & Hyde* toured for months before coming to Broadway, *The Lion King* debuted in Minneapolis, *Aida* in Atlanta, and *Ragtime* in Toronto and Los Angeles before opening in New York.

Off-Broadway and Off-Off-Broadway are other “proving grounds.” Not all plays that appear on these stages aspire to Broadway, but more than a few do. The same is true of workshops, although these have not produced a great number of plays that later successfully transferred to Broadway. Under an Actor’s Equity

Association workshop contract, producers use a nonprofit theatre to stage performances that may not exceed six weeks, must be performed before only an invited (not a paying) audience, likely use only minimal sets and costumes, and offer actors wages that are well below Broadway and even Off-Broadway minimums.

The most successful Off-Broadway productions have been nonprofit resident theatres, including the so-called regional theatres. In the last twenty-five years, a number of regional theatres have emerged—the Arena Stage in Washington D.C., the Tyrone Guthrie in Minneapolis, and the Mark Taper Forum in Los Angeles are prime examples. To an extent, they have excelled in developing their own plays and musicals. Regional theatres often book tryout productions in conjunction with Broadway producers. This arrangement provides a lower-risk look at the production than if the show went directly to a full-scale Broadway production that proceeded through the usual “out of town” tryout route.

Regional theatres have their own life and vitality. Companies such as San Francisco’s ACT, Los Angeles’ Odyssey Theatre, and Cambridge’s ART are innovative and important to the cultural activities of their home cities. Although touring companies of successful shows still provide a solid basis for professional theatre in the United States outside New York, the “action” is increasingly regional.

Original works mounted in regional theatres have the advantage of a full run without regard to critics’ reviews. Typically, a regional theatre production has a month’s rehearsal and a playing time of four to six weeks. If the play is well received, it may run much longer. Many regional theatres are part of the League of Resident Theatres (LORT), which is a trade association representing the theatres in collective bargaining. Actors in regional theatres are paid at rates well below Broadway standards and are often paid based on a royalty derived from revenues. On the other hand, actors may also be able to obtain assurances that they will be able to be in the play if it later moves to another regional theatre, to Off-Broadway in New York, or to Broadway itself. If this is not possible, actors may secure a buy-out if the play is later produced elsewhere.

Authors benefit from the regional theatres, which provide substantially increased opportunities for their work to be staged. Although the trade-off is lower royalties and less artistic control, generally the advantages outweigh the drawbacks. The regional theatres in turn may retain an interest in the play if it moves elsewhere. These ongoing rights may be a percentage of the later box office, a percentage of net profits of the production, a percentage of the author’s share, or even an option to stage the production.

13.1.3 The Prospective Audience

The Broadway show and live theatre in general are unique animals in today’s burgeoning entertainment market. Except for live concerts, theatre is the only entertainment medium that has to reproduce itself live every night, without mistake and with enthusiasm and sparkle. With the advent of the Internet, the increased popularity of film, the omnipresent free, cable and pay television and the onslaught of video games (a \$22,000,000,000 industry in itself), the fight for the entertainment dollar is intense. For that reason, it behooves Broadway producers to identify and target their audience. In recent years, the League has conducted studies to do just that. The results suggest that Broadway will continue

along its path of more musicals, lighter and more youth-oriented fare and fewer serious dramatic plays.

In a study commenced in 1996, the League determined that the average Broadway theatregoer is 41 with two-thirds of the audience over the age of 35, women make up 62 percent of the audience; 75 percent of the audience is Caucasian and only 3 percent Afro-American; a majority have at least a college degree and the average annual household income is \$91,000. Women determine what show to see in two-thirds of all ticket sales. Seventy percent of theatregoers see four or less shows a year, while a hard core five percent attend fifteen or more shows annually, accounting for 25 percent of ticket sales. Significantly, the number of theatregoers under the age of 18 doubled in 1997 to 1,100,000 people from a little over 500,000 in 1991. The increase in younger attendees is attributed to a prospering economy, more family oriented shows, the cleaning up and mall-ing of Times Square and marketing efforts such as discounted student tickets and “Kids Night on Broadway” promotions. More than half of all theatregoers are from outside of the New York City metropolitan area. (See “Who Goes To Broadway: A Demographic Study of the Broadway Audience 1997,” *The League of American Theatres and Producers*).

Another important aspect of the audience for Broadway producers to recognize and cater to are group sales. A “group” is defined as an organized theatre party of twenty individuals or more. In 1998, group sales in the United States amounted to three million tickets, accounting for 12 percent of all tickets sold on Broadway and 10 percent of tickets for touring Broadway shows. In a study done in 1998, the League additionally found that groups are more likely to attend musicals, the lead time for group purchases is four to five months, and direct mail is the preferred method of solicitation. Factors affecting a group’s choice of show included the show itself, customer service, seat location and availability and ticket price. (See “Safety in Numbers: An Analysis of Group Sales Activity for Broadway Shows,” *The League of American Theatres and Producers*.)

Finally, the audience outside of the New York City area is of growing importance. In a study entitled “The Audience for Touring Broadway: A Demographic Study 1998” by the League, the League found that more than 15 million tickets are sold to Broadway touring shows in the more than 100 cities in North America where touring shows appear. These sales account for more than one-half of the industry’s annual gross sales. As with the Broadway audience, the touring audience is primarily female (69%), Caucasian (88%), well-educated (two-thirds with at least a college degree) and affluent (\$80,400 average annual household income). The average age of the touring Broadway theatregoer is 46, and the South had the greatest percentage of theatregoers under the age of 18. Since the average touring Broadway theatregoer attends six or more such productions a year, they are not a group to be ignored.

13.2 THE APPROVED PRODUCTION CONTRACTS

The following analysis of the Approved Production Contracts (APC) is summarized and excerpted from an article by Alvin Deutsch in 3 *Entertainment and Sports Lawyer* (Spring 1985), reprinted with the permission of *Entertainment and Sports Lawyer*. Mr. Deutsch is senior partner in the New York law firm of Deutsch, Klagsbrun & Blasband, and the former chairman of the Legitimate

Theatre Division of the ABA Forum Committee on the Entertainment and Sports Industries. Mr. Deutsch represents authors and producers.

MBPC: Requiescat in Pace—APC: Quo Vadis?

by Alvin Deutsch

The Approved Production Contracts (“APC”), which govern the production of plays and musicals, are the result of a collaborative effort by the League of [American] Theatres and Producers and The Dramatists Guild (the “Guild”). Under the APC the producer receives not only first-class production rights, in the United States and Canada, but (a) additional second-class rights, (b) the right to initially present the play as a developmental production (i.e., Equity Code Workshop); and (c) the right to present the play off-Broadway in New York after the “vesting” of the producer’s rights. (See subhead VIII, *infra*.)

The APC, includes the producer’s option to present a first-class production in the United Kingdom and expands that territory to include New Zealand and Australia

[I] Options and Advances

The payment to the author to option a play under the APC is \$5,000 for six months, renewable for six months for an additional \$2,500. If a producer wishes a second twelve-month option he or she is required to pay \$5,500 (in stages) subject to the producer having raised 50 percent of the estimated production cost, plus having secured one of the following: a signed contract with a theater, star, director, or for a developmental theater production.

For a musical the payment is \$18,000 for a twelve-month option, renewable for an additional twelve months for a \$9,000 option payment, and for a third year at \$900 per month. There are no other conditions attached to this right of extension.

Neither the \$7,500 nor the \$18,000 option payments, for a twelve-month option period, is payable until delivery of a play’s script of 110 pages, and in the case of a musical, 80 script pages plus 12 songs.

Option payments are recoupable from 50 percent of the royalty payments due the authors *after* the producer has recouped his production cost.

In addition to the aforesaid option payments, authors will receive advances when the play or musical is capitalized. With respect to a play the author will receive, on the first day of rehearsals, an advance of (a) 3 percent of the capitalization up to a maximum of \$35,000 and (b) for a musical, 2 percent of the capitalization up to a maximum of \$60,000. In determining the capitalization of a play or musical, certain enumerated items are excluded from the computation (e.g., 10 percent of overcalls; up to 20 percent of loans, bonds and other recoverables; payments due any regional or like theater that has previously presented the play). The advance payable on capitalization is thereafter recoupable by the producer from 50 percent of the authors’ weekly royalty *after* recoupment of the producer’s production costs.

[II] Royalties and Guarantees

Guarantees

The author of a play will always receive a weekly guarantee of \$1,000. The authors of a musical (bookwriter, composer, and lyricist) will receive a weekly guarantee of \$3,000 in the aggregate. These payments are not subject to diminution for any reason and cannot be invaded by the recoupment of any option payments or advances.

Royalties—As a Percentage of Gross Weekly Box Office Receipts

Play. Royalties to the “author” of a play, commencing out-of-town through previews, including the press opening, are 5 percent of the gross until recoupment of production costs and thereafter 10 percent. The word “author” includes any underlying rights owners (e.g., a novelist, owner of a motion picture screenplay) from whom rights to adapt have been acquired (excluding translators). However, the *adaptor* must receive at least one-third of the total royalty.

Musical. In a musical the royalty to the “authors” prior to recoupment is 4.5 percent of the gross increasing to 6 percent on recoupment. The term “authors” *excludes* any underlying rights owners.

[III] Royalty Adjustment Formula

... The APC creates a “royalty adjustment formula.” This formula operates in the “gray area,” which occurs when a “play” producer’s gross is 110 percent or less of his “break even,” pre-recoupment. The formula similarly applies post-recoupment except that the gray area is increased to 120 percent. In a musical the gray area is 110 percent pre-recoupment and 115 percent post-recoupment.

... When a play or musical is faltering, the APC automatically gives the producer economic relief, without the necessity of negotiating a royalty adjustment with the authors. The royalty adjustment formula operates as follows for all performances of a play commencing with the fourth week following the press opening. The royalty adjustment formula is triggered to the point at which the producer of the play “breaks even” (i.e., where “gross weekly box office receipts” equal the “weekly operating costs”) as determined by the accountants for the play. Any gross in excess of “break even” is deemed “profit.” (N.B.: Regardless of whether the play is operating at a weekly loss or making a small weekly profit, the play’s author is always guaranteed \$1,000 per week and the musical authors \$3,000.)

Royalty Adjustment: During Christmas Season

The [royalty] formulae are subject to ... adjustment covering a period between December and January in which the producer is entitled, by written notice to the authors, to elect a four-week period in which to adjust the authors’ royalties. The foregoing gives recognition to a historical truism in the theater that the weeks preceding Christmas have invariably been loss weeks for most plays and musicals, whereas during the week between Christmas and New Year many plays can sell out, hopefully overcoming the pre-Christmas loss.

Each contract may vary in (i) its definition of the permitted expenses in determining weekly operating profits; (ii) whether the formula applies post-recoupment; (iii) whether the theatre at which the play is presented is a necessary party (in which event it would share in a portion of the weekly profits not paid to the Royalty Participants); (iv) whether the formula applies to all first-class U.S. productions or solely the original Broadway production; and (v) whether any individual Participant (e.g., the Author) is entitled to a minimum guaranteed portion of the weekly profits (i.e., 40 to 50%).

[IV.] Out-of-Town Theaters

Fixed Fees/Gross

Play. If the play is presented in a first-class out-of-town theater where, subsequent to January 1, 1977, the authors of plays have “customarily” been paid a percentage of the gross (i.e., royalties) above a guarantee, the author of a play will now receive (a) 10 percent of the guarantee, plus (b) 25 percent of (a) payable from up to 50 percent of producer’s weekly “profits” plus (c) 10 percent of the balance of pro-

ducer's "profit." (Thus if the producer's contract with a theater, which grosses \$300,000, guarantees the producer \$100,000 and 60 percent over \$200,000, then at capacity the producer would earn \$100,000 plus \$60,000. The author would receive (a) 10 percent of the guarantee (\$10,000), plus (b) 25 percent of (a) (\$2,500) and (c) 10 percent of the producer's guarantee and profit after deducting (a) and (b) (\$5,750) for a total royalty of \$18,250.)

If, however, the out-of-town theater in which the play is being presented was not in the foregoing category, then the author will receive (a) 10 percent of the guarantee plus (b) 10 percent of the producer's "profit," if any.*

Musical. For a musical the formula is identical except that the authors receive 6 percent of the guarantee and profit in lieu of 10 percent.

[V] United Kingdom, Australia, and New Zealand

Once the producer's rights have "vested" (see subhead VIII, *infra*) then he is entitled to present the play as a first-class production in the United Kingdom, Australia and New Zealand. If the producer elects to "license" his rights in Australia and New Zealand, the authors are entitled to match the terms which the producer is willing to accept from his licensee.

To exercise rights in Australia or New Zealand, the producer must present the play in that territory within the following periods: (a) play—six months after the producer's rights vest in the United States and (b) musical—six months after the close of the New York production.

The royalties covering a United Kingdom production are the same as the United States touring and fixed fee royalties (see subhead V, *supra*) but the guarantees to the authors (i.e., \$1,000 for a play and \$3,000 for a musical) are reduced to one-third.

If the producer elects not to present the play in any of these territories, then provided his rights have "vested," the producer will receive from any such productions licensed by the authors in the United Kingdom: 25 percent of the amount received by the authors, including subsidiary rights, for contracts executed seven years from the date the producer's rights have vested; and for revivals 10 percent for a period of forty years from vesting.

In Australia and New Zealand it is 35 percent of the authors' compensation covering contracts entered into six years following vesting (but no revival rights).

[VI] Reopening Rights

The producer's reopening rights in the United States require notification to the author, within four months after the producer's last first-class performance, of his intention to reopen the play, which reopening must occur within twelve months from its last performance.

[VII] Subsidiary Rights

The APC retains and expands on the producer's right to participate in the so-called subsidiary rights, i.e., radio, television, and motion picture; stock performances; amateur and like performances; and revivals and commercial uses.

[VIII] Vesting

[The Producer's rights vest, i.e., the point when the producer is entitled to a share

*The profit is the amount the producer receives from the local presenter in excess of the guarantee. Thus, using the figures in the preceding note, the producer's profit is 60 percent over \$200,000 or \$60,000 (of which the author receives 10 percent).

in the subsidiary rights proceeds after] ten paid previews plus a press opening in New York City; or five paid previews plus a press opening, and five regular performances following the press opening; or five out-of-town performances, five paid previews, and a press opening in New York.

If the play is presented out of town for sixty-four performances in an eighty-day period, then the vesting will occur on the sixty-fourth first-class performance (which can include performances in arenas and auditoriums).

[IX] Special Circumstances

To cover those situations in which the APC either fails to come to grips with certain issues or where special circumstances arise, such as the producer's inability to acquire the full panoply of rights (i.e., audiovisual rights are unavailable) or he or she is unable to finance the production, because of a particular problem with the play or musical, the APC has established a Theatrical Conciliation Council. The council is a joint board consisting of seven producer and seven author members that will appoint a Joint Review Board comprising one member from each group to rule on permitted variations in the APC, where the Guild has refused to "certify" the contract because it falls outside accepted parameters. In effect the Joint Review Board is an appeals body from the Guild's determination.

[X] Article XXII

Article XXII is limited, under the APC, to the types of clauses that can be inserted. However, none of its clauses can modify or conflict with other terms of the APC. Examples of permissible clauses are: right to present developmental productions; revised definition of a "completed" play; billing; travel expenses; house seats, and clauses to counterbalance "special circumstances," as defined in the APC.

[XI] Conclusion

The APC recognizes that authors should not be writing plays or musicals virtually "on spec" nor should they alone be receiving remuneration from a successful Broadway run that has a large weekly operating cost. Similarly, producers, whose estimated production costs range from \$300,000 (plays) to \$8 million (musicals) should be able to attract investors by demonstrating that royalties, as a percentage of gross, will always reflect their ability to break even and that in producing a successful play or musical their subsidiary remuneration will be expanded to new and meaningful areas and for a possibly greater duration.

The intent of the parties is salutary: It lowers the weekly operating costs (particularly when the play or musical is at or near break even) by eliminating full royalty payments and substitutes certain guarantees in their stead. Once a play is operating successfully the authors will receive their full royalty. . . . Furthermore, and with rare exceptions, few producers are now paying percentages of the gross on musicals. They have converted to "pooling" formulae containing weekly guarantees to all royalty participants who also receive a percentage of the net weekly operating profits (anywhere from 30 percent to 50 percent), with investors receiving another 30 or 40 percent and the theatre owner 10 to 20 percent. The major benefit of the pooling formula was that all royalty recipients (i.e., authors, producers, designers, underlying rights owners, and the director-choreographer, subject to the rules of the Society of Stage Directors and Choreographers) were included in the pool, thus reducing the producer's fixed weekly operating costs.

In addition to the APC, The Dramatists Guild (www.dramaguild.com) maintains standard and model contracts for all levels of productions, including First Class/

Broadway, regional, and smaller house productions as well as commission agreements and collaboration agreements. Although only members of the Guild have access to the sample contracts, the Guild is a valuable resource for theatrical information and standards, as is the web site for The League of American Theatres and Producers (www.broadway.org).

13.3 BUSINESS STRUCTURES OF THEATRICAL VENTURES

The overwhelming majority of Broadway shows are presented through the efforts of limited partnerships. A general partner proposes the scheme, raises the money necessary to float the venture by obtaining limited partners, and makes the business decisions, including when to fold the operation. The limited partners are just that—limited. To retain the protections of a limited partner, mainly liability limited to the amount of one's investment, the business decisions must remain solely with the general partner. In turn, the limited partner is protected somewhat by requirements imposed on theatrical organizers by federal and state laws. Notable are the stringent requirements of the Securities Act of 1933 and the various state Blue Sky laws. One who deals in theatrical ventures and seeks to obtain investments from others must consult these regulations carefully.

A high degree of expertise is involved in structuring limited partnerships in order to comply with all federal and state requirements. For example, a number of federal exemptions under SEC Regulation D set limits on the amount that may be raised and the time within which it may be raised. The regulations also prescribe “sophisticated investor” characteristics that are designed to make it less likely that people will invest without sufficient knowledge or expertise. Counterpart state enactments, such as section 25101 *et seq.* of the California Corporations Code, reiterate such regulations.

As the site of primary theatrical activity in this country, the State of New York has enacted a special statute dealing exclusively with investments in legitimate theatrical offerings, the Arts and Cultural Affairs Law, §§ 23.01 to 23.23. This statute imposes upon producers obligations of full and fair disclosure in solicitation materials (including detailed anti-fraud provisions, in subdivision 5 of § 23.03), specific requirements for the keeping of financial records and the rendering of reports to investors, the escrowing of advance sale deposits (and refunds, where applicable), and other provisions for the protection of investors and consumers, and empowers the Attorney General to take corrective measures in appropriate cases.

13.4 SPECIAL PROBLEMS IN THEATRICAL AGREEMENTS

Disputes in the legitimate theatre produce few reported cases. Most disagreements are submitted to arbitration, pursuant to individual contract provisions or under union collective bargaining agreements. The written decisions in such cases are not made public. Occasionally, however, a case reaches the courts which directly impacts the theatre and which also illustrates themes running throughout the entertainment industries. Such are the following discussions in *Gennaro v. Rosenfield* and *Elvin Associates v. Franklin* which lend insight into the complexities and sensitivities of the business and artistic aspects of theater; *Childress v. Taylor* and *Erickson v. Trinity Theatre*, which discuss issues of joint authorship; *Wasserman v. Leigh*, involving joint authors' rights with respect to

revivals of their works; and *Sacks v. Rubin*, which considers the concept of “first class” versus a “workshop” production.

Gennaro v. Rosenfield, 600 F. Supp. 485 (S.D.N.Y. 1984)

GOETTEL, DISTRICT JUDGE

[Gennaro, a successful Broadway veteran, claimed that defendant Rosenfield wrongfully discharged him and defamed him when Gennaro was replaced as choreographer of the stage adaptation of the classic musical film, “Singin’ In The Rain.” Gennaro unsuccessfully sought a preliminary injunction to prevent Rosenfield from engaging any other choreographer pending the outcome of the litigation. After acquiring stage adaptation rights from MGM, Rosenfield licensed Harold Fielding to produce a London production of the musical. Fielding wanted Peter Gennaro to choreograph the London production, but Gennaro would do so only on condition that he would have the option to choreograph any first-class U.S. stage production, including any Broadway production . . . Gennaro did choreograph the London production, but was not afforded the opportunity to choreograph the Broadway production.]

. . . Mr. Gennaro argues that he will continue to suffer two wrongs for which money damages will not compensate: harm to his reputation and erosion of his professional skills. While it may be that the harm to the plaintiff’s reputation constitutes irreparable harm, we do not believe that erosion of his skills constitutes such harm. . . . Mr. Gennaro argues that the alleged breach of contract will limit his opportunities for work, thereby denying him the chance to develop and refine his skills. The plaintiff’s situation, however, differs markedly from the young hockey player’s in *Neeld [v. American Hockey League, 439 F. Supp. 459 (W.D.N.Y.1977)]* (denial of opportunity to practice or play could diminish skills.) The plaintiff, an established choreographer with a first class reputation, will not be denied the opportunity to embark on a promising artistic career. Nor are his skills likely to diminish or atrophy. Since he has already choreographed the London production, the Broadway production represents less than a unique opportunity to develop his skills. In addition, as a top flight choreographer, he is likely to gain other work during the time he would be choreographing “Singin’ In The Rain.” Thus, we decline to follow *Neeld*. The plaintiff has not established that his skills will diminish so as to cause him irreparable harm.

Mr. Gennaro also asserts that his reputation has been irreparably harmed . . . Peter Gennaro has worked for many years to establish a reputation as a first-class choreographer. His reputation is of great commercial value to him. The apparent replacement of the plaintiff could damage his reputation in the theatre community. Those who had thought Mr. Gennaro would choreograph the production may now hold him in lower esteem. As the plaintiffs correctly point out, such damage to reputation is difficult if not impossible to measure in money terms.

On the other hand, show business arrangements often take into account considerations other than artistic merit. One bad review cannot tarnish the image of an established artist such as Peter Gennaro. Theatre people may well find fault with Mr. Rosenfield in this situation—particularly in light of the success of the London production. This situation resembles that where a baseball manager replaces the starting pitcher in the late innings despite the fact that he is pitching

a shut out and has a comfortable lead. If the relief pitcher fails, the manager looks terrible. . . .

Setting aside the question of irreparable harm, we next consider whether the plaintiffs have demonstrated a likelihood of success on the merits. We conclude that they have not. [The Court was not persuaded—at least for preliminary injunction purposes—that the “heads of agreement” between Rosenfield and Fielding’s solicitor, which included the above condition, was sufficiently binding to withstand attack.]

If the motion is denied, [Gennaro] may suffer some additional irreparable harm. However . . . most of the damage to his reputation has already been done. No doubt, if we grant the requested relief, a group of individuals who would otherwise learn of Mr. Gennaro’s alleged dismissal will remain uninformed (assuming the defendants choose to go ahead with the production). A denial of injunctive relief will harm the plaintiff’s reputation among this group. However, the plaintiff’s primary concern is his reputation among those in the theatre industry. That group is well informed, and has by now learned of this controversy. Thus, the denial of injunctive relief will do little to mitigate the total harm the plaintiff will suffer as a result of his alleged replacement.

On the other hand, should we grant the requested relief, the defendants will have two choices. They may hire Mr. Gennaro, or abandon the production. Abandonment, while not unrealistic—given the assertions to this effect in Mr. Rosenfield’s papers—would constitute self-inflicted harm. We do not believe such harm is cognizable or relevant to our determination. Assuming Mr. Rosenfield opts to have Mr. Gennaro choreograph his production, Mr. Rosenfield would find himself in the uncomfortable position of working closely with someone whom he allegedly had replaced, had litigated against, and had no desire to work with. In addition, Mr. Rosenfield would be forced to abandon any discussions or contract into which he might have already entered with another choreographer. He would then suffer the obvious consequences of such an action. In our view, the defendants will suffer at least as much if not more harm from a grant of injunctive relief than the plaintiffs will suffer from a denial. . . .

Like the film and television industries, the theatre is collaborative in nature. However, except in the case of musicals, multiple authorship is uncommon. Nevertheless, a typical theatrical production will involve the input of many people. Often, the producer and/or director will suggest changes, and the individual in charge of selecting the plays to be presented by a resident company (referred to as the “dramaturg”) may have input as well. As the following case indicates, participation does not necessarily equate with joint authorship. This case raises echoes of *Blaustein v. Burton* (Sec. 4.1.2.2), but reaches a contrary result, due to the presence of a copyright issue.

Childress v. Taylor, 945 F.2d 500 (2d Cir. 1991)

NEWMAN, CIRCUIT JUDGE

[Childress sued Taylor and other defendants alleging violations of the Copyright Act, 17 U.S.C. 101 et seq. (1988), the Lanham Act, §§ 15 U.S.C. 1051, 1125(a) (1988), and New York’s anti-dilution statute, N.Y. Gen. Bus. Law § 368-d (McKinney 1984). Childress, an experienced playwright, was the author of a play about the legendary Black comedienne Jackie “Moms” Mabley. Taylor, an actress,

had acted in some of Childress' plays and portrayed Mabley in an Off Broadway skit some ten years earlier. She suggested the idea of the play to Childress, and claimed to be a joint author with Childress. Taylor appealed a grant of summary judgment holding that Childress was sole author of the play. The Second Circuit affirmed.]

When Taylor first mentioned the "Moms" Mabley project to Childress in 1985, Childress stated she was not interested in writing the script because she was too occupied with other works. However, when Taylor approached Childress again in 1986, Childress agreed, though she was reluctant due to the time constraints involved. Taylor had interested the Green Plays Theatre in producing the as yet unwritten play, but the theatre had only one slot left on its summer 1986 schedule, and in order to use that slot, the play had to be written in six weeks.

Taylor turned over all of her [assembled] research material to Childress, and later did further research at Childress's request. It is undisputed that Childress wrote the play, entitled "Moms: A Praise Play for a Black Comedienne." However, Taylor, in addition to providing the research material, which according to her involved a process of sifting through facts and selecting pivotal and key elements to include in a play on "Moms" Mabley's life, also discussed with Childress the inclusion of certain general scenes and characters in the play. Additionally, Childress and Taylor spoke on a regular basis about the progress of the play.

Taylor identifies the following as her major contributions to the play: (1) she learned through interviews that "Moms" Mabley called all of her piano players "Luther," so Taylor suggested that the play include such a character; (2) Taylor and Childress together interviewed Carey Jordan, "Moms" Mabley's housekeeper, and upon leaving the interview they came to the conclusion that she would be a good character for the play, but Taylor could not recall whether she or Childress suggested it; (3) Taylor informed Childress that "Moms" Mabley made a weekly trip to Harlem to do ethnic food shopping; (4) Taylor suggested a street scene in Harlem with speakers because she recalled having seen or listened to such a scene many times; (5) the idea of using a minstrel scene came out of Taylor's research; (6) the idea of a card game scene also came out of Taylor's research, although Taylor could not recall who specifically suggested the scene; (7) some of the jokes used in the play come from Taylor's research; and (8) the characteristics of "Moms" Mabley's personality portrayed in the play emerged from Taylor's research. Essentially, Taylor contributed facts and details about "Moms" Mabley's life and discussed some of them with Childress. However, Childress was responsible for the actual structure of the play and the dialogue.

Childress completed the script within the six-week time frame. Childress filed for and received a copyright for the play in her name. Taylor produced the play at the Green Plays Theatre in Lexington, New York, during the 1986 summer season and played the title role. After the play's run at the Green Plays Theatre, Taylor planned a second production of the play at the Hudson Guild Theatre in New York City. At the time Childress agreed to the project, she did not have any firm arrangements with Taylor, although Taylor had paid her \$2,500 before the play was produced. On May 9, 1986, Taylor's agent, Scott Yoselow, wrote to Childress's agent, Flora Roberts, stating:

Per our telephone conversation, this letter will bring us up-to-date on the current status of our negotiation for the above mentioned project:

1. CLARICE TAYLOR will pay ALICE CHILDRESS for her playwriting services on the MOMS MABLEY PROJECT the sum of \$5,000, which will also serve as an advance against any future royalties.

2. The finished play shall be equally owned and be the property of both CLARICE TAYLOR AND ALICE CHILDRESS.

It is my understanding that Alice has commenced writing the project. I am awaiting a response from you regarding any additional points we have yet to discuss.

Flora Roberts responded to Yoselow in a letter dated June 16, 1986:

As per our recent telephone conversation, I have told Alice Childress that we are using your letter dated to me of May 9, 1986 as a partial memo preparatory to our future good faith negotiations for a contract. There are two points which I include herewith to complete your two points in the May 9th letter, i.e.,:

1) The \$5,000 advance against any future royalties being paid by Clarice Taylor to Alice Childress shall be paid as follows. Since \$1,000 has already been paid, \$1,500 upon your receipt of this letter and the final \$2,500 to be paid upon submission of the First Draft, but in no event later than July 7, 1986.

2) It is to be understood that pending the proper warranty clauses to be included in the contract, Miss Childress is claiming originality for her words only in said script.

After the Green Plays Theatre production, Taylor and Childress attempted to formalize their relationship. Draft contracts were exchanged [but no deal materialized] and the parties' relationship deteriorated. Taylor decided to mount another production of the play without Childress. Taylor hired Ben Caldwell to write another play featuring "Moms" Mabley; Taylor gave Caldwell a copy of the Childress script and advised him of elements that should be changed.

The "Moms" Mabley play that Caldwell wrote was produced at the Astor Place Theatre in August 1987. No reference to Childress was made with respect to this production. However, a casting notice in the trade paper "Back Stage" reported the production of Caldwell's play and noted that it had been "presented earlier this season under an Equity LOA at the Hudson Guild Theatre."

Flora Roberts contacted Jay Kramer to determine whether this notice was correct. Kramer responded:

Ben Caldwell has written the play which I will furnish to you when a final draft is available. We have tried in every way to distinguish the new version of the play from what was presented at the Hudson Guild, both by way of content and billing.

Undoubtedly, because of the prevalence of public domain material in both versions of the play, they may be unavoidable similarities. Please also remember that Alice was paid by Clarice for rights to her material which we have never resolved.

Kramer never sent a copy of Caldwell's play. Childress's attorney, Alvin Deutsch, sent Kramer a letter advising him of Childress's rights in the play as produced at the Hudson Guild and of her concerns about the advertising connecting Caldwell's play to hers. For example, one advertisement for Caldwell's play at the Astor Place Theatre quoted reviews referring to Childress's play. Other advertisements made reference to the fact that the play had been performed earlier that season at the Hudson Guild Theatre . . .

Discussion

In common with many issues arising in the domain of copyrights, the determination of whether to recognize joint authorship in a particular case requires a sensitive accommodation of competing demands advanced by at least two persons, both of whom have normally contributed in some way to the creation of a work of value. Care must be taken to ensure that true collaborators in the creative process are accorded the prerequisites of co-authorship and to guard against the risk that a sole author is denied exclusive authorship status simply because another person rendered some form of assistance. Copyright law best serves the interest of creativity when it carefully draws the bounds of “joint authorship” so as to protect the legitimate claims of both sole authors and co-authors . . . Many people can be said to “jointly labor” toward “a common design” who could not plausibly be considered co-authors . . .

The Copyright Act defines a “joint work” as a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole. 17 U.S.C. 101. As Professor Nimmer has pointed out, this definition is really the definition of a work of joint authorship. See 1 *Nimmer on Copyright* 6.01 (1991).

The definition concerns the creation of the work by the joint authors, not the circumstances, in addition to joint authorship, under which a work may be *jointly owned*, for example, by assignment of an undivided interest. The distinction affects the rights that are acquired. Joint authors hold undivided interests in a work, like all joint owners of a work, but joint authors, unlike other joint owners, also enjoy all the rights of authorship, including the renewal rights applicable to works in which a statutory copyright subsisted prior to January 1, 1978. See 17 U.S.C. 304.

Some aspects of the statutory definition of joint authorship are fairly straightforward. Parts of a unitary whole are “inseparable” when they have little or no independent meaning standing alone. That would often be true of a work of written text, such as the play that is the subject of the pending litigation. By contrast, parts of a unitary whole are “interdependent” when they have some meaning standing alone but achieve their primary significance because of their combined effect, as in the case of the words and music of a song. . . .

The legislative history also clarifies other aspects of the statutory definition, but leaves some matters in doubt. Endeavoring to flesh out the definition, the committee reports state:

[A] work is “joint” if the authors collaborated with each other, or if each of the authors prepared his or her contribution with the knowledge and *intention* that it would be merged with the contributions of other authors as “inseparable or interdependent parts of a unitary whole.” The touchstone here is the *intention, at the time the writing is done*, that the parts be absorbed or combined into an integrated unit. . . .

House Report at 120; Senate Report at 103 (emphasis added). This passage appears to state two alternative criteria—one focusing on the act of collaboration and the other on the parties’ intent. However, it is hard to imagine activity that would constitute meaningful “collaboration” unaccompanied by the requisite intent on the part of both participants that their contributions be merged into a unitary whole, and the case law has read the statutory language literally so that

the intent requirement applies to all works of joint authorship. [Citations omitted.]

A more substantial issue arising under the statutory definition of “joint work” is whether the contribution of each joint author must be copyrightable. [The Court referred to a split among treatises on this issue, but noted that case law and the Register of Copyrights supported] a requirement of copyrightability of each contribution. [Citations omitted.]

The issue, apparently open in this Circuit, is troublesome . . .

[W]e are persuaded to side with the position taken by the case law and endorsed by the agency administering the Copyright Act. The insistence on copyrightable contributions by all putative joint authors might serve to prevent some spurious claims by those who might otherwise try to share the fruits of the efforts of a sole author of a copyrightable work, even though a claim of having contributed copyrightable material could be asserted by those so inclined. More important, the prevailing view strikes an appropriate balance in the domains of both copyright and contract law. In the absence of contract, the copyright remains with the one or more persons who created copyrightable material. Contract law enables a person to hire another to create a copyrightable work, and the copyright law will recognize the employer as “author.” 17 U.S.C. 201(b). Similarly, the person with non-copyrightable material who proposes to join forces with a skilled writer to produce a copyrightable work is free to make a contract to disclose his or her material in return for assignment of part ownership of the resulting copyright. *Id.* 201(d). And, as with all contract matters, the parties may minimize subsequent disputes by formalizing their agreement in a written contract. Cf. 17 U.S.C. 101 (“work made for hire” definition of “specially ordered” or “commissioned” work includes requirement of written agreement). It seems more consistent with the spirit of copyright law to oblige all joint authors to make copyrightable contributions, leaving those with non-copyrightable contributions to protect their rights through contract.

There remains for consideration the crucial aspect of joint authorship—the nature of the intent that must be entertained by each putative joint author at the time the contribution of each was created. The wording of the statutory definition appears to make relevant only the state of mind regarding the unitary nature of the finished work—an intention “that their contributions be merged into inseparable or interdependent parts of a unitary whole.” However, an inquiry so limited would extend joint author status to many persons who are not likely to have been within the contemplation of Congress. For example, a writer frequently works with an editor who makes numerous useful revisions to the first draft, some of which will consist of additions of copyrightable expression. Both intend their contributions to be merged into inseparable parts of a unitary whole, yet very few editors and even fewer writers would expect the editor to be accorded the status of joint author, enjoying an undivided half interest in the copyright in the published work. Similarly, research assistants may on occasion contribute to an author some protectable expression or merely a sufficiently original selection of factual material as would be entitled to a copyright, yet not be entitled to be regarded as a joint author of the work in which the contributed material appears. What distinguishes the writer-editor relationship and the writer-researcher relationship from the true joint author relationship is the lack of intent of both participants in the venture to regard themselves as joint authors.

Focusing on whether the putative joint authors regarded themselves as joint

authors is especially important in circumstances, such as the instant case, where one person (Childress) is indisputably the dominant author of the work and the only issue is whether that person is the sole author or she and another (Taylor) are joint authors. [Citations omitted.]

In this case, [the trial court] properly insisted that [the parties] entertain in their minds the concept of joint authorship, whether or not they understood precisely the legal consequences of that relationship. Though joint authorship does not require an understanding by the co-authors of the legal consequences of their relationship, obviously some distinguishing characteristic of the relationship must be understood in order for it to be the subject of their intent. In many instances, a useful test will be whether, in the absence of contractual agreements concerning listed authorship, each participant intended that all would be identified as co-authors. Though “billing” or “credit” is not decisive in all cases and joint authorship can exist without any explicit discussion of this topic by the parties, consideration of the topic helpfully serves to focus the fact-finder’s attention on how the parties implicitly regarded their undertaking.

... [E]qual sharing of rights should be reserved for relationships in which all participants fully intend to be joint authors. The sharing of benefits in other relationships involving assistance in the creation of a copyrightable work can be more precisely calibrated by the participants in their contract negotiations regarding division of royalties or assignment of shares of ownership of the copyright, see 17 U.S.C. 201(d) . . . [T]here is no evidence from which a trier could infer that Childress had the state of mind required for joint authorship. As [the trial court] observed, whatever thought of co-authorship might have existed in Taylor’s mind “was emphatically not shared by the purported co-author.” There is no evidence that Childress ever contemplated, much less would have accepted, crediting the play as “written by Alice Childress and Clarice Taylor.”

Childress was asked to write a play about “Moms” Mabley and did so. To facilitate her writing task, she accepted the assistance that Taylor provided, which consisted largely of furnishing the results of research concerning the life of “Moms” Mabley. As the actress expected to portray the leading role, Taylor also made some incidental suggestions, contributing ideas about the presentation of the play’s subject and possibly some minor bits of expression. But there is no evidence that these aspects of Taylor’s role ever evolved into more than the helpful advice that might come from the cast, the directors, or the producers of any play. A playwright does not so easily acquire a co-author.

Judge Haight was fully entitled to bolster his decision by reliance on the contract negotiations that followed completion of the script. Though his primary basis for summary judgment was the absence of any evidence supporting an inference that Childress shared “Taylor’s notion that they were co-authors,” he properly pointed to the emphatic rejection by Childress of the attempts by Taylor’s agent to negotiate a co-ownership agreement and Taylor’s acquiescence in that rejection. Intent “at the time the writing is done” remains the “touchstone,” House Report at 120; Senate Report at 103, but subsequent conduct is normally probative of a prior state of mind. [Citations omitted.]

Taylor’s claim of co-authorship was properly rejected, and with the rejection of that claim, summary judgment for Childress was properly entered on her copyright and unfair competition claims, and on defendants’ counterclaim. The judgment of the District Court is affirmed.

NOTES

1. In *Thomson v. Larson*, 147 F.3d 195 (2d Cir.1998) the Second Circuit, relying on *Childress v. Taylor*, affirmed the lower court's rejection of the claim by a dramaturg to joint authorship of the hit Broadway musical *Rent*. Thomson alleged that she developed the plot and theme, contributed to the story, created character elements, wrote a significant portion of the dialogue and song lyrics as well as other copyrightable material and sought relief in the form of 16 percent of the author's share of royalties generated by *Rent* and a declaration that she was a "co-author" of *Rent*. In 1995, Thomson signed a contract with the New York Theatre Workshop, a non-profit theatre company, to act as a dramaturg to assist Jonathon Larson in clarifying the storyline of the musical *Rent* which Larson had been developing and producing on various stages and in various forms since 1989. (The NYTW had begun working with Larson in 1992 to further develop the musical and convinced him to bring Thomson in. The Second Circuit defined a "dramaturg" as "someone who provides a range of services to playwrights and directors in connection with the production and development of theatre pieces." Quoting Thomson, the court noted that "the role of the dramaturg 'can include any number of the elements that go into crafting of a play' such as 'actual plot elements, dramatic structure, character details, themes and even specific language'." The position has also been described as "someone whose duties range from giving notes to actors to full-scale restructuring of scripts." Thomson was paid \$2000 for her services. On January 24, 1996, just hours after the final dress rehearsal before *Rent's* opening night Off-Broadway, Larson died suddenly of an aortic aneurysm. The play opened Off-Broadway, then moved to smashing critical and commercial success on Broadway and elsewhere, winning the Pulitzer Prize and the Tony Award. Applying the two-prong test of the *Childress* case, the court rejected Thomson's claim, on the basis of Larson's intent: he retained decision-making authority over changes in the work; he was billed as sole author (Thomson was billed as dramaturg); his agreement with NYTW identified him as the sole author; and he refused other parties' attempts to encourage him to collaborate with a bookwriter. The court concluded Larson never regarded himself as a joint author. (The parties later settled for an undisclosed payment to Thomson plus credit as dramaturg on the title page of the *Rent* playbill.)

2. Would either claimant have succeeded on an idea submission claim? In *Maurizio v. Goldsmith*, 84 F.Supp.2d 455 (S.D.N.Y.), aff'd, 230 F.3d 518 (2d Cir. 2000) involving a claim of co-authorship of the novel *First Wives' Club*, the plaintiff's claims under Section 43a of the Lanham Act and under New York common law unfair competition law survived a motion to dismiss, although plaintiff's basic copyright claim was time-barred.

The following case offers a rare look into the relationship between the creators of a theatrical work, in this instance *Man of La Mancha*. The court is asked to construe the original 1964 production agreement and the continuing rights of the parties under the merger clause of that agreement as well as under the Copyright Act.

Wasserman v. Leigh, 1994 WESTLAW 320606 (S.D.N.Y. 1994)

LEVAL, CHIEF JUDGE

Dale Wasserman, plaintiff, is the author of the "book" of the musical "Man of La Mancha." Defendants Joe Darion and Mitch Leigh are, respectively, the lyricist and composer of that work. A controversy arose after Darion and Leigh, without Wasserman's consent, contracted for Leigh to produce a revival of the musical which ran from 1991-1992. Darion and Leigh contend that the original 1964 production agreement among the three parties authorized them to contract for a revival production upon the consent of any two of the three. Wasserman disa-

grees, contending that the 1964 agreement no longer governs the disposition of rights in the musical, and that defendants' actions infringed his copyright.

The parties agreed to submit for trial on a written record the following question whether the licensing of the revival by Leigh and Darion without the agreement of Wasserman violated Wasserman's rights under the 1964 contract or the copyright law.

Background

In 1964 the parties to this action entered into a contract, together with a producer, for the creation and production of the musical play, "Man of La Mancha" (hereinafter the "1964 Agreement" or "Agreement"). The musical was successfully produced and became a classic of the Broadway stage. While Wasserman, Leigh and Darion each obtained the copyright to his respective contribution to the work (Copyright Office Entry No. DP:6275, Oct. 4, 1966), the Agreement provides that their rights in the musical are "merged," and that dispositions of the merged rights are to be made by majority vote among the three.

In late 1989, discussions began among various of the parties and different potential producers for a revival production of the musical. It appears that Wasserman identified a revival producer and believed he and Darion had entered into an agreement with that producer; it appears that Leigh also became interested in producing a revival directly and secured Darion's, but not Wasserman's, consent. The revival production authorized by Leigh and Darion ran from November 1991 to July 1992, with substantial royalties paid to all three of the authors.

Wasserman contends that the 1964 Agreement has expired, and that by authorizing the revival, defendants infringed his copyright in the "book" of the musical. Defendants Leigh and Darion contend, on the other hand, that the 1964 Agreement and a course of dealings among the parties authorized them to enter into a revival production without Wasserman's consent.

Discussion

I. Merger of rights under the 1964 Agreement

The first issue is whether the rights merged by the 1964 Agreement remained merged at the time of the revival production. Pursuant to the 1964 Agreement, Wasserman's rights in the book, Leigh's rights in the music, and Darion's rights in the lyrics became merged once the musical was performed 21 times on the New York stage. The relevant paragraph of the 1964 Agreement states:

Upon the official opening of the Play in New York City in accordance with the provisions of this Agreement and the presentation of the Play for not less than twenty-one (21) consecutive performances, all dramatic and dramatico-musical rights and all rights of every kind and nature in the Play and the basic work shall be merged for all purposes and there shall be no disposition of any such rights in either the Play or the basic work without a disposition of the same rights in the other. Upon the merger of rights in the Play and the basic work, said rights shall be, subject to the Producer's rights pursuant to this Agreement, jointly controlled by the Composer, Lyricist and Bookwriter. . . .

1964 Agreement Page(NN)(1).

Wasserman contends that this merger or rights expired once the producer

ceased to have rights under the contract, and that his copyright on the book barred authorization of a new production without his consent. His argument relies on a sentence of the Agreement which states: “Upon the merger of rights in the Play and the basic work, said rights shall be, subject to the Producer’s rights pursuant to this Agreement, jointly controlled by the Composer, Lyricist and Bookwriter.” Wasserman contends the words “subject to the Producer’s rights” show that the merger terminated when the producer’s rights under the Agreement expired. This argument is plainly wrong: the quoted sentence refers to the producer’s rights in reference to *control* over the merged rights, not their merger.

Nor does anything else in the contract link expiration of the producer’s rights to expiration of the merger of rights. Rather, the contract provides for the reversion of rights to the individual collaborators only if the events leading to the merger—*i.e.*, 21 consecutive performances in New York City—never occur. ¶10(NN)(2). It is uncontested that the performances necessary to effectuate merger of rights under the contract did occur. Moreover, ¶10(NN)(1) states in no uncertain terms that upon production of the requisite number of shows, “*all rights* of every kinds and nature . . . shall be merged for *all purposes*” (emphasis added).

Defendants also present the [essentially unrefuted] affidavit of Allen Arrow, an entertainment attorney, who states, based on his experience with Broadway production agreements, that the provision for merger of rights quoted above is “standard in the theatrical industry,” and that, “It is standard for such rights to merge after a stated number of performances, and for the authors and their heirs to be bound forever by such merger.” . . .

Wasserman also argues that the rights merged under the contract are no longer merged because the contract “expired by its terms” prior to the actions of defendants that he now challenges. The contract, however, provides for termination only if the producer fails to meet his financial obligations or fails to produce the work in the time allowed by the contract. The contract has not expired.

Even if the contract had expired, Wasserman presents no basis for finding that the merger of “all rights” for “all purposes” provided for in the contract would not survive the contract’s term, and the contract itself provides strong indication that the opposite is true. Certain sections of the contract, not cited by any party, indicate that rights merged under the Agreement could be exercised in manners not specified by the Agreement, and thus were not dependent on the Agreement for their continued duration. Paragraph Seventh states that “the Author” (defined elsewhere as the bookwriter, lyricist and composer) “alone owns and controls the Play with respect to all other uses.” ¶7. It is clear in context that “other uses” are those whose disposition is not specified by the 1964 Agreement. Another clause states more clearly that rights by the Agreement remain in force without regard to the duration of the Agreement. Excerpted in part, it reads:

Reservation of Rights. The Author shall retain sole and complete title, both legal and equitable, in and to the Play and all rights and uses of every kind except as otherwise specifically herein provided. The Author reserves all rights and uses now in existence or *which may hereafter come into existence*, except as specifically herein provided.

Article VII of the Schedule of Additional Contract Terms, 36 (emphasis added).

On the basis of the plain language of the 1964 Agreement, and the uncontroverted evidence of industry practice provided by defendants, I find defendants have demonstrated as a matter of law that the rights merged by the 1964 Agreement remain merged.

II. Control of the merged rights

The 1964 Agreement . . . clearly provides for “author” decisions to be made by a majority vote among the three. At one point the Agreement states that any decision to be made by the “authors” of the work will be made by “a majority in percentage interest of all of the Authors” (¶10(EE)). Because the percentage interests of the three were divided in a manner that required the votes of two collaborators to reach a majority,² this provision effectively establishes majority control over the merged rights among the three authors. Additional contract provisions confirm that decisions by the “Author” shall be made by majority vote among Wasserman, Darion and Leigh. (¶6(b); 6, Sched. of Addtl Product Terms.)

Darion and Leigh contend that these control provisions in the 1964 Agreement entitled them to authorize a revival production of the musical despite Wasserman’s objection. Their claim embodies the propositions that the 1964 Agreement governs a contract for a revival production and that the Agreement’s control provisions remained in force at the time Darion and Leigh authorized the revival. I consider each of these propositions in turn.

A. Applicability of control provision to revival production

1. Contract language

Darion and Leigh contend that the majority vote provisions, standing alone, authorized them to proceed with the revival production despite plaintiff’s objection, because the contract containing the provisions remains in force. The court agrees, although noting that there is arguable ambiguity in the contract as to whether an intra-author dispute over a revival production is among the author decisions to be made by majority vote.

The first majority vote provision, which states “Where the approval or consent of the Author is required, Composers, Lyricists and Book Writers, respectively, shall vote as separate units, with one vote to each unit,” is in ¶6(b). It is arguable that reading Paragraph 6 as a whole leads to the conclusion that part 6(b) concerns the method by which the “author” shall be consulted for decisions made by the producer in the course of the original production. The provision for majority vote is sandwiched between part 6(a), in which the Producer agrees that the Author’s consent shall be required for certain aspects of the production, and part 6(c), which concerns how the Producer shall obtain Author consent in emergencies. Part 6(d) goes on to state the Producer’s remedy should the Author unreasonably withhold consent. Because the controversy before this court does not involve the original production, it is arguable that it does not come within ¶6(b).

The second majority vote provision, in ¶10(EE), states: “With respect to ‘Authors’ decisions and approvals *as referred to elsewhere in this Agreement* . . . said decisions and approvals shall be determined by the affirmative vote of a majority in percentage interest of all of the Authors” (emphasis added). This majority vote

provision does not explicitly reach the dispute before the court because decisions about revival productions are not among those encompassed by the phrase “Authors’ decisions and approvals as referred to elsewhere in this Agreement.” The only reference in the Agreement to revival productions appears in the Schedule of Additional Production Terms, 33; it concerns certain rights in a revival production that may accrue to the *producer* and is inapplicable here.

The third majority vote provision is in Section 6 of the Schedule of Additional Production Terms. Titled “Author’s Decisions,” it states in part, “In all cases where the approval or consent of the Author is required, an unresolved disagreement among several Authors of the Play shall be controlled by a majority of the Authors, unless a different method of decision is provided for in the Production Contract.” A question whether to license a production of the copyrighted work seems to fall directly within the category of “cases where the approval or consent of the Author is required.” Because the consent to authorize a revival production is not explicitly mentioned in this Agreement, one might argue that it was not intended to be covered by this broadly written clause. This view is arguably reinforced by the fact that the “Production Contract,” whose terms for decision-making govern if they conflict with the terms given in 6, in turn refers, as seen above, only to “‘Authors’ decisions and approvals as referred to elsewhere in this Agreement.” Nonetheless, the licensing of a revival production undoubtedly requires that approval of the authors, and this broadly-worded majority vote provision appears on its terms to govern how such an approval may be given.

If decision needed to be reached solely on the basis of the written words of the contract, I would therefore favor the view advocated by the defendants, that the majority vote provision governs the licensing of a revival. It is, however, unnecessary to rely solely on the contract language. For the conduct of the parties, discussed below, reinforces the view that the parties, including Wasserman, so understood their contract.

2. Course of practice among the parties

Darion and Leigh contend that there is a 29-year history among the parties of operating by majority rule, and that this record of their mutual practice, prior to this litigation, is compelling evidence that the intent of the 1964 Agreement was to bind the “authors” to act by majority rule in all dispositions of their rights in the work.

Wasserman does not contest that decisions have been made by majority vote; rather, he argues that any such decisions are irrelevant because they were made while the 1964 Agreement was in force and, he contends, that Agreement is no longer in force.

Defendants provide[d numerous] examples of previous decisions made by 2–1 votes among Wasserman, Leigh and Darion. . . .

Also in the record are:

- Darion’s affidavit that when he told Leigh that he might support Wasserman’s chosen producer for a revival production, Leigh, who was unhappy with the arrangements made by Wasserman, replied to the effect, “Well, I guess I’ll be outvoted.” (Darion Aff. ¶15.)
- Wasserman’s verified complaint, filed in October 1991 and later withdrawn, claiming that he and Darion had entered into an agreement for a revival production of the work that was legally binding “even in the absence of Leigh’s agreement.” . . .

The verified complaint filed by Wasserman demonstrates that he previously took the position that just two of the three authors of the work could enter into a binding production agreement for a revival [, as does] Wasserman's previous reliance on a majority vote . . .

The evidence presented by defendants, including Wasserman's earlier verified complaint, supports their contention that the course of conduct between the parties shows an intent that the majority vote provisions of the 1964 Agreement apply to dispositions of rights other than the particular dispositions specified by the 1964 Agreement. The parties' course of conduct speaks strongly to the parties' intention as to their contract. [Citations omitted.] Nothing in the record controverts defendants' evidence of the parties' understanding, that all dispositions of rights in the work be governed by majority vote . . .

B. Continued validity of 1964 Agreement

As noted in the earlier discussion of whether the merger of rights had expired, Wasserman's claim that the 1964 Agreement has "expired" revolves around a single sentence in the contract, which states that upon the merger of rights, those rights "shall be, subject to the Producer's rights pursuant to this Agreement, jointly controlled by the Composer, Lyricist and Bookwriter." Wasserman argues, "It is thus clear that the 'merger' was only effective for so long as the Producer enjoyed rights pursuant to the 1964 Agreement."

Wasserman's reading simply does not follow from the words of the contract. The sentence makes clear that the merged rights are to be controlled by the three people whose work went into creating the musical, except to the extent of the Producer's rights. If, as Wasserman contends, the Producer no longer has any rights related to the musical, then all rights are controlled by the three persons named. I noted as well that in the verified complaint submitted by Wasserman in the earlier action, Wasserman alleged that Leigh and Darion had breached the 1964 Agreement, strong evidence that as of October 1991 Wasserman considered the 1964 Agreement to be currently binding on the parties.

On the other hand, defendants' argument that the 1964 Agreement continues in force finds support in the fact that the Agreement bears no expiration date. (The Agreement's termination clause could have been invoked only if the Producer had failed to produce the musical or to make payments under the contract, circumstances that evidently did not arise.) In addition, Darion and Leigh state by affidavit that (a) the producer continues to receive revenues from subsidiary rights, such as the original cast album of the musical (Arrow Aff. ¶6; Darion Aff. ¶18), and (b) the producer's right under the 1964 Agreement to share in motion picture rights was extended through an arbitration to June 30, 1993 (Green Aff. ¶6 and exhibit thereto, attached to Notice of Cross-Motion), well after the events here at issue took place.

The mere fact that the producer continues to draw royalties for contracts dispensing of subsidiary rights entered into many years ago does not show that the 1964 Agreement itself remains in force with respect to decisions for future productions. The 1964 Agreement gave the producer the right to share in proceeds of the cast album contract, but actual royalty payments to the producer for album sales are undoubtedly provided for by the cast album contract itself, not by the 1964 Agreement.

The producer's right to share in a new motion picture contract, on the other hand, is a right that arises directly under the 1964 Agreement. The arbitrator's

award extending the duration of that right to June 1993 is evidence that the 1964 Agreement had not expired before that date, because if the contract had expired, there would have been no basis for the producer's right. Because the producer's rights under the 1964 Agreement are not in any way severed from the authors' rights, it would appear that the 1964 Agreement remains in force, and that the authors' rights covered by that Agreement continued to be governed by it at least through June 1993, well after Darion and Leigh entered into the contract for a revival production.

Conclusion

I conclude on the record submitted by the parties that the licensing of the 1989 revival by Leigh and Darion without the agreement of Wasserman did not violate Wasserman's rights under the 1964 contract or the copyright law. This ruling encompasses my findings that the rights of Wassermann, Darion and Leigh in the musical play *Man of La Mancha* remain merged by the 1964 Agreement, and that Darion and Leigh had authority under that Agreement to contract for a revival production of 1989–1990.

The following case illustrates the court's attempt to apply the custom and practice of the industry and to define terms of art within the industry.

Sacks v. Rubin 6/15/90 N.Y.L.J. 22 (col. 1) (Sup. Ct. N.Y. County)

D. SAXE, JUSTICE

When is a theatre production “first-class” or a “workshop”? That is the issue raised [by the parties' cross-motions] for summary judgment . . . Plaintiff was a part owner of rights to a literary work entitled “A Valuable Property” that was proposed for production according to the agreement at issue dated June 2, 1986; defendant, a theatrical and film producer, entered into the agreement as producer of the show. By written agreement the plaintiff granted the defendant certain production rights and waived his rights to share in the royalties from the musical, in return for which he was to be compensated at future intervals.

Under paragraph 3.(c) of the contract, payment for plaintiff's rights was to be made as follows:

3. Upon the execution of this agreement, Producer shall pay the parties as follows:
 - (c) \$10,000 to Sacks upon the execution of this agreement. In addition, producer shall pay to Sacks \$10,000 no later than October 2, 1986. Furthermore, provided and on condition that the musical shall be fully capitalized or shall commence rehearsals for a production (other than rehearsals for a “workshop” production) prior to full capitalization, Producer shall pay to Sacks the additional sum of \$40,000 upon the earlier to occur of said events.

In the event the Musical not be fully capitalized and shall not commence rehearsal for the first-class production, producer shall have no further obligation to Sacks except for payment of the two \$10,000 payments set forth above.

Rehearsals for the production (which was called MIKE, and was based on the life of the late theatrical producer Mike Todd) were held commencing March 1, 1988; the show opened on April 6, 1988 at the Walnut Street Theatre in Philadelphia and ran for at least 34 performances.

Payment of the first 2 \$10,000 payments was made by the defendant, but she

contends her liability ends there, because the Walnut Street Theatre production was not a “first-class” production but rather a “workshop” production, which was a “work-in-progress” in its development stage being readied for Broadway, in which changes were continually being made and the performances tailored to audience response. The defendant further alleges that the show was not staged in a “first-class” theatre and that since plaintiff was not to be paid in full until rehearsals would begin for a “first-class” production, the conditions precedent to the payment of the \$40,000 as outlined in paragraph 3(c) of the agreement have not been satisfied and thus plaintiff is not entitled to this payment. A condition precedent is an act or event which must occur before a duty to perform a promised performance arises. If the condition does not occur the promised performance need not be rendered. Restatement, Second, Contracts 225(2).

The defendant further offers as a definition of a “workshop” production: a production that is “unfinished, incomplete, unresolved and not set” in its final form; the definition offered of a “first-class” production is a production having a large budget and which is presented at a first-class theatre. She contends that the Walnut Street house does not meet this description, and that this theatre does not put on first-class productions. In addition, the defendant offers the opinion of her attorney, who is involved primarily in the practice of entertainment law, to the effect that the production that ran in 1988 was typical of a “workshop” production, which is put on to enable producers and authors to dictate changes and to determine whether adequate financing could be secured.

Finally, defendant contends that when the contract terms are read in accordance with custom and usage in the theatre industry and when these terms are applied to the production of MIKE the plaintiff has no claim for the \$40,000 payment.

Plaintiff contends that he did not read the provisions of the agreement so analytically, but he nevertheless challenges defendant’s characterization of the production and theatre. To this end, he presents the affidavit of a former business representative of Actor’s Equity who is highly familiar with theatrical terms and contract provisions and who states that the Walnut Street Theatre meets the industry’s qualifications of being “first-class”, being classified as a LORTA theatre, which is the same designation given to the Vivian Beaumont Theatre in New York and the Mark Taper Forum in Los Angeles. He further asserts that all aspects of the production, such as the types of contracts used, the budget, admission prices, advertising and salary, point to the show having been a first-class production, and thus the contract at issue is satisfied and the plaintiff became entitled to the \$40,000 upon the start of rehearsals for the show, as agreed to in the contract.

The court sees that the most crucial factor, whether the production of MIKE was a “workshop” or a “first-class” production, remains unresolved and is a triable issue . . .

Sacks v. Rubin 12/11/91 N.Y.L.J. 22 (col. 5) (Sup. Ct. N.Y. County)

D. SAXE, JUSTICE

The motion and cross-motion present the somewhat novel situation of both sides seeking confirmation of a Special Referee’s report, each believing that with such confirmation he or she must prevail . . .

Following an evidentiary hearing as to the parties intended meanings, the Special Referee arrived at certain conclusions:

“Workshop production” was intended to mean the type of showcase with minimal staging and scenery, without an orchestra and without advertising to the theatre public.

The production performed at the Walnut Street Theatre in Philadelphia was fully costumed and advertised as a world premiere showing and attended by a ticket purchasing audience.

The term “first-class production” means a show that is produced in a theatre located in the Manhattan Theatre District.

All these recommendations and findings are confirmed and with these findings in mind, I turn to the language of the contract.

Sentence #1, stated more simply, provided for payment to plaintiff of \$40,000.00 if rehearsals for a non “workshop” production began, while sentence #2 provides that plaintiff was not entitled to payment unless rehearsals were for a “first-class production.”

The evidence and the finding reflect that the terms “workshop” and “first class production” as employed in the agreement do not encompass the full spectrum of types of productions—“workshop” denoting a production using minimal staging and scenery, without advertising to the public, while “first-class production” denoted Broadway production. In view of these meanings, sentence #2 clearly contradicts at least part of the promise of sentence #1. Under such circumstances, the rules of contract construction require the later provision to be stricken by the court (see, 22 NY Jur 2d Contracts sec. 222.) When the first sentence is enforced, the evidence and finding that rehearsals for a non-workshop (albeit non-Broadway) production did begin, require a holding in favor of the plaintiff.

Accordingly, the plaintiff’s motion is granted.

Settle order.

TABLE OF CASES

Page numbers set in **boldface type** indicate that the text of the case is given.

- A & M Produce Co. v. FMC Corporation, 467, 468, 469, 474, 475
- A & M Records, Jarvis v., 8n.7, 9n.27
- A & M Records, Inc., Wooden Nickel Records, Inc. v., 614n
- A & M Records, Inc. v. Napster, Inc., 690, 717, **720–736**
- ABC, Inc., Clark v., **159–163**, 170n, 179
- ABC, Inc., Deteresa v., 185n.4
- ABC, Inc., Gilliam v., 154, 323, **396–400**, 403n
- ABC, Inc., Medical Laboratory Management Consultants v., 184–185n.1
- ABC, Inc., Ralph C. Wilson Industries, Inc. v., **680–684**
- ABC, Inc., Sanders v., 184–185n.1
- ABC, Inc., Sellars v., 89n.3
- ABC, Inc. v. Wolf, 89n.2, 103n.6, 442, **450–457**, 457nn.1, 2, 503
- Abdulmajid, Wilhelmina Models, Inc. v., 442
- Abelleria v. District Court of Appeal, 47
- Abend, Stewart v., **342–351**, 351n, 735
- Abernathy, Naataanbuu v., 8n.9
- ABKCO Music Inc. v. Harrisongs Music, Ltd., 14, **59–65**
- Abraham, Nelson v., 478
- Access Beyond Technologies, In re, 512n.2
- Accolade, Inc., Sega Enterprises Ltd. v., 764
- Accuride Corp., Accuride Int'l, Inc. v., 750
- Accuride Int'l, Inc. v. Accuride Corp., 750
- Ackee Music, Inc. v. Williams, 758
- Activities Club of New York, Ltd., Colli-gan v., 132
- Actors' Equity Association, H.A. Artists & Associates Inc. v., 31–32
- Acuff-Rose Music, Inc., Campbell v., 718, 719, 723, 724, 726
- Adams v. Irving Music, Inc., 83n.5
- Adell Chemical Co., Lahr v., 230
- Adkisson v. Ozment, 621
- Adolf Coors Co., Newcombe v., 219
- Advanced Programming Resources, Inc., Allard Enters. v., 743
- Advance Music Corporation v. American Tobacco Co., 141, 142
- Agnant v. Shakur, 178
- A. H. Emery Co. v. Marcan Prods. Corp., 720
- Alabama, Thornhill v., 421
- Albuquerque A. R. T. Co., Mirage Editions, Inc. v., 763
- Alden-Rochelle, Inc. v. ASCAP, 569, 575, 582
- Ali v. Playgirl, Inc., 194n.7
- A.L.K. Corporation v. Columbia Pictures Industries, Inc., 679
- Allard Enters. v. Advanced Programming Resources, Inc., 743

- Allen, Joplin Enterprises v., 247n.2
 Allen, Towne & Heath, Koussevitsky v., 141
 Allen v. Gordon, 172
 Allen v. Men's World Outlet, Inc., 264n.1
 Allen v. National Video, Inc., 214, **258–264**, 275
 Allied Artists Picture Corp. v. Rhodes, 652
 Allied Discount Co., Manekas v., 502
 Altai, Computer Associates v., 766n.1
 Amador Valley JUHSD, Moyer v., 159
 A-Mark Coin Co. v. General Mills, Inc., 250
 Amblin Entertainment, Spinello v., 521
 AmBrit, Inc. v. Kraft, Inc., 759
 American Booksellers Association, Inc. v. Barnes & Noble and Borders et al., 528
 American Broadcasting Companies, Inc. *See* ABC, Inc.
 American Business Consultants, Inc., Julian v., 172
 American Civil Liberties Union, Reno v., 698, 707, 707n, 710, 717, 740
 American Eutectic Welding Alloys Sales Co. v. Dytron Alloys Corp., 694
 American Geophysical Union v. Texaco, Inc., 718, 719, 724
 American Heritage Products, Martin Luther King, Jr. Center for Social Change v., 214, 243
 American Hockey League, Neeld v., 786
 American Int'l Bank, American Int'l Group, Inc. v., 747
 American Int'l Group, Inc. v. American Int'l Bank, 747
 American Library Association v. Pataki, 706n.3
 American Metal Co., Turner v., 64
 American Mini Theatres, Inc., Young v., 413n.6, 421, 708n
 American Tobacco Co., Advance Music Corporation v., 141, 142
 America Online, Inc., Zeran v., 691, **708–713**
 America Online, Inc. v. IMS, 714
 Ames, Re, 130
 AMF Inc. v. Sleekcraft Boats, 740, 745, 747, 749, 750
 Amstar Corp. v. Domino's Pizza, Inc., 759
 Ananda Church of Self-Realization, Self-Realization Fellowship Church v., 749
 Anderson v. Capitol Records, Inc., 623n.4
 Andrew Kavovit, Scott Eden Management v., **74–78**
 Andrew Lloyd Weber, The Really Useful Group, et al., Ray Repp and K & R Music, Inc. v., 8n.7
 Angeles Real Estate Co. v. Kerxton (In re Construction General Inc.), 516
 Apollo Records, Leo Feist, Inc. v., 602
 April Enterprises, Inc. v. KTTV, 388
 Arbor House Publishing Co., Inc., Follett v., 123, **143–149**
 Arctic Int'l, Inc., Midway Mfg. Co. v., 751, 764, 764n.1
 Arista Records, Inc., Melissa Manchester v., 82n.4
 Arizona Retail Sys, Inc. v. The Software Link, 767
 Arizona v. Maricopa County Medical Society, 653
 Aronson v. Wiersma, 158
 Arsenio Hall v. X Management, Inc., 52n
 Art Buchwald v. Paramount Pictures Corp., 369, **464–479**, 479nn.1, 2, 521, 634, 635
 Arthur v. Oakes, 110, 457
 Asahi Metal Indus. Co. v. Superior Court, 695
 ASCAP, Alden-Rochelle, Inc. v., 569, 575, 582
 ASCAP, Buffalo Broadcasting Co. v., **566–577**, 576nn.2,3,4, 577n.5
 ASCAP, CBS, Inc. v., 574
 ASCAP, United States v. (1940–43), 576n.3
 ASCAP, United States v. (1950–51), 576n.3
 ASCAP, United States v. (1962, 1964, 1969) (Application of Shenandoah Valley Broadcasting, Inc.), 569
 ASCAP, United States v. (1995) (In re Fox Broadcasting Co.), **577–578**
 A. Schroeder Music Publishing Co., Ltd., Instone v., 490–496
 A. Schroeder Music Publishing Co. v. Macaulay, **484–488**, 486n.1, 487nn.3,4, 560, 570n, 619–620
 Asiafocus Int'l, Inc., Playboy Enterprises, Inc. v., 753
 Associated Press, International News Service v., 127
 Associated Press, Kregos v., 8n.7, 9n.28
 Astaire v. Best Film & Video Corp., 244
 Atlantic Recording Corp., Lamothe v., 123, **133–135**, 137, 138
 Atlantic Recording Corporation, Robers v., 521

- Attorney General, Greenbrier Cinemas, Inc. v., 654
- Audiofidelity Enterprises, Inc., PPX Enterprises, Inc. v., 152
- Augustine v. Trucco, 614n
- August Storck K.G. v. Nabisco, Inc., 754
- Automated Medical Laboratories, Inc., Hillsborough County v., 514
- Autry v. Republic Productions, 396n.1
- Auvil v. CBS 60 Minutes, 712
- Avalon Software, Inc., In re, 518n.1
- Avery Dennison Corporation v. Sumpton, 756–757
- Avon Book Division, Chesler v., 396, **400–402**
- A.V. Productions, Inc., Lorimar Productions, Inc. v., 463n.5
- Babbitt Electronics, Inc. v. Dynascan Corp., 760
- Badgeley, Haight v., 453
- Baird, Merrimack Valley Nat'l Bank v., 335
- Baker v. Chock Full o'Nuts Corp., 541
- Balfour, Guthrie & Co. v. Gourmet Farms, 388
- Ballas v. Tedesco, 770
- Bally Total Fitness Holding Corp. v. Faber, 754
- Bank of America, Washer v., 158
- Bank of America, Young v., 235
- Bantam Doubleday Dell Publishing, Inc., Cliff Notes, Inc. v., 264n.2
- Barham, Peabody v., 158
- Barlow, Poultry Producers etc. v., 111
- Barnes & Noble and Borders et al., American Booksellers Association v., 528
- Barrett, Byrne v., 62
- Barr v. Rothberg, **50–52**, 59
- Barry, Lemat Corp. v., 111, 457n.3
- Bartsch v. Metro-Goldwyn-Mayer, Inc., 325–326, 331, 332, 334
- Basic Books, Inc. v. Kinko's Graphics Corp., 718
- Batfilm Productions v. Warner Brothers Inc., 469, **479–484**, 635
- Baumrind, Paramount Pad Co. v., 614n
- Beatty arbitration (Warren Beatty/JRS Productions, Inc. and Paramount Pictures Corp. re: "Reds"), 390, 392–395, 637
- Beckett v. Prudential Ins. Co. of Am., 696
- Belford, Kokoszka v., 511
- Belford, Clark & Co., Clemens v., 142, 143
- Belin v. Weissler, 772n.1, 778
- Beneficial Commercial Corp. v. Murray
Clert Datsun, 377
- Benkert v. Benkert, 98
- Bensusan Restaurant Corp. v. King, 690, **692–696**, 699
- Berger, Hanlon v., 185n.2
- Bernbach v. Harmony Books, 135n
- Bernstein v. NBC, Inc., 194, **202–211**, 211n.1
- Beruan v. French, 190
- Best Film & Video Corp., Astaire v., 244
- Bethesda Mineral Spring Co., Mueller v., 617
- Bethlehem Engineering Export Co. v. Christie, 111–112
- Beverly Glen Music, Inc., Loeb and Loeb v., 8n.13
- Beverly Glen Music, Inc. v. Warner Communications, Inc., 458n.5
- Beverly v. Network Solutions, Inc., 746
- Big Daddy's Family Music Ctr., Daddy's Junky Music Stores, Inc. v., 750
- Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 277
- Bill v. Superior Court of the City and County of San Francisco, 426, 427
- Binderup v. Pathe Exchange, 642–643
- Bindrim v. Mitchell, 171, **174–177**, 177n.1
- Bingham v. Zolt, 64–65n
- Black Rain Communications, Inc., Independent Nat'l Distributors, Inc. v., 695
- Blake v. Ferris, 86
- Blaustein v. Burton, 282, 294, **305–313**, 313–314n, 638, 787
- Bleistein v. Donaldson Lithographing Co., 300
- Blick, Loving & Evans v., 47
- Bloom v. Hearst Entertainment, Inc., 323, 335n.1
- Blue Bell, Inc., Levi Strauss & Co. v., 751
- Blyn Shoes, Inc., Rosenwasser v., 563
- BMI, Inc., United States v. (1940–43), 576n.3
- BMI, Inc., United States v. 1966, 581n.3
- BMI, Inc. v. Hirsch, 519n.5
- Board of Education, Matter of, Older v., 37n.2
- Boardman Co. v. Petch, 94
- Board of Regents of the University of Oklahoma, NCAA v., 570–571
- Board of Trade of the City of Chicago v. United States, 653
- Bobbs-Merrill Co., Inc. v. New American Library, 396, **402–403**

- Bobby Berosini Ltd., People For The Ethical Treatment of Animals v., 185n.3
- Bofill, In re, 506
- Bollatin v. Workman Service Co., 47
- Bolton, Dymow v., 284
- Bomberger v. McKelvey, 606
- Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 233–234, 515
- Bonner v. Westbound Records, 611–612, **616–620**, 620–621
- Boogie Kings, The v. Guillory, 623n.4
- Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co., 336n.3
- Booth v. Curtis Publishing Co., 251, 252, 254
- Bose v. Consumers Union, 180
- Boucher, Fox v., 695, 696
- Bourne Co. v. Walt Disney Co., 332, 335n.2
- Bower v. Weisman, 371
- Boy Scouts of America, Way v., 426
- Brandenburg v. Ohio, 420, 421, 422, 428
- Brandt v. Lockheed Missiles & Space Co., 388
- Branson v. Fawcett Publications, Inc., 227
- Brian v. Richardson, 159
- Bright Tunes Music Corp. v. Harrisongs Music, 61
- Brincat, HMH Pub. Co. v., 743
- Brinkley v. Casablancas, 193n.4
- Briscoe v. Reader's Digest Association, Inc., 188, 189, 190
- Broadcast.Com, Inc., Radio Channel Networks, Inc. v., 754
- Broadcast Music, Inc. v. Peppermint Club, Inc., 720
- Brockert, Motown Record Corporation v., **110–112**, 442
- Brockett v. Spokane Arcades, Inc., 405
- Brodell, Warner Brothers Pictures, Inc. v., 72, 458n.6
- Brookfield Communications, Inc. v. West Coast Entertainment Corp., 691, 722, **737–755**, 757
- Brower v. Gateway 2000, Inc., 766
- Brown, King Records, Inc. v., 442
- Brownell, Peres v., 503
- Bruce v. Riddle, 708
- Bucci, Planned Parenthood Federation of America, Inc. v., 746, 747
- Buchwald v. Superior Court of San Francisco, **45–48**, 55
- Buckaloo v. Johnson, 614n
- Buddy Buie Productions, Inc., PolyGram Records, Inc. v., 369n.3, 607, 731
- Buena Vista Books, Keimer v., 536n
- Buena Vista Distribution Co., General Cinemas Corp. v., 654, 655
- Buena Vista Publishing, NYLJ, Lacoff v., 536n
- Buffalo Broadcasting Co. v. ASCAP, **566–577**, 576nn.2,3,4, 577n.5
- Buffalo Builders' Supply Co. v. Reeb, 563
- Bughouse, Inc., Conway v., 439
- Bugliosi, Forsher v., 188
- Bumgarner, Warner Brothers Pictures, Inc. v., **95–100**, 100nn.1,2,4
- Burbank, City of, Cinevision v., 404, **414–419**
- Burger King Corp. v. Mason, 760
- Burger King Corp. v. Rudzewicz, 695, 698, 699, 701
- Burton, Blaustein v., 282, 294, **305–313**, 313–314n, 638, 787
- Butler v. Michigan, 422, 706n
- Butts, Curtis Publishing Co. v., 162
- B.V. Stein and Day, Inc., Septembertide Publishing v., 519n.3
- Byers v. Edmondson, 420, **424–430**
- Byrne v. Barrett, 62
- Cable Doctor, The, Inc., Manhattan Cable Television, Inc. v., 8n.4, 9n.21
- Cable Vision, Inc. v. KUTV, Inc., 685
- Cahall Bros., United States v., 518
- California Brewing Co., Thompson v., 314n
- California, Cohen v., 269, 407, 422
- California, Goldstein v., 216, 234
- California, Kaplan v., 407–410
- California, Miller v., 189, 405–411, 707n
- California, Smith v., 217
- California, Splawn v., 406
- California, Whitney v., 422
- California Lettuce Growers v. Union Sugar Co., 388
- Calvin Desiger Label, Playboy Enterprises, Inc. v., 753
- Cambridge Biotech Corp., Institut Pasteur v., 512n.2
- Camden Fire Ins. Ass'n, Di Giovanni v., 446
- Campagne Nationale Air France, Darby v., 695
- Campbell, Perez v., 504
- Campbell v. Acuff-Rose Music, Inc., 718, 719, 723, 724, 726
- Candid Productions v. International Skating Union, 88n.1, 103–104n.9
- Canfield v. Reynolds, 26

- Cannon Financial Group, Inc., Wind Power Systems, Inc. v. (In re Wind Power Systems, Inc.), 516
- Cantrell v. Forest Publishing Co., 191
- Capita, Lepel High Frequency Labs v., 454
- Capital Cities/ABC, Inc., Food Lion, Inc. v., 180
- Capital Concerts, Inc., Kitt v., 186
- Capitol Service, Inc., United States v., 651, **651–656**
- Capital Temporaries, Inc. of Hartford v. The Olsten Corporation, 327
- Capitol Cities case, 683
- Capitol Records, Inc., Anderson v., 623n.4
- Capricorn Records, Inc., Forrest R.B. Enterprises, Inc. v., 589, **609–611**
- Cardillo v. Doubleday & Co., Inc., 178
- Cardinal Films case, 677
- Cardservice Int'l, Inc. v. McGee, 740, 748
- Cardtoons v. Major League Baseball Players, 214
- Carey v. Population Services International, 422–423
- Carlisle v. Fawcett Publications, Inc., 253
- Carma Developers (Cal.) Inc. v. Marathon Development California Inc., 386–387, 388, 389
- Carol Publishing Group, Inc., Castle Rock Entertainment, Inc. v., 718, 719
- Carrere, In re, **509–513**
- Carroll, Musicians v., 32
- Carson, Re, 130
- Carson v. Here's Johnny Portable Toilets, Inc., 226, 228nn.1,2, 239
- Carter v. Ferguson, 111
- Casablancas, Brinkley v., 193n.4
- Casey, DeMille Co. v., 436–437
- Casey case, 682
- Casey v. Kastel, 75–76
- Casper Corp., Donsco, Inc. v., 131
- Casper Corp., John Wright, Inc. v., 131
- Caspi v. The Microsoft Network LLC, 739, 770n.2
- Cass Communications case, 679
- Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc., 718, 719
- Catala, P.P.X. Enterprise, Inc. v., 614n
- Catapult Entertainment, Inc. v. Perlman (In re Catapult Entertainment, Inc.), 512n.2
- Cathy Parker Management, Inc., Ripa v., 521
- Catrett, Celotex Corp. v., 9n.29
- CBS, Inc., Engel v., 16, 29–30, 30nn.1,2
- CBS, Inc., McCollum v., 427
- CBS, Inc., Stanley v., 281, 297
- CBS, Inc., Waldschmidt v., **508–512**
- CBS, Inc., Warner Brothers Pictures, Inc. v., 544n.1
- CBS, Inc. v. ASCAP, 574
- CBS, Inc. v. Democratic Comm., 421
- CBS 60 Minutes, Auvil v., 712
- CB Western Financial v. Computer Consoles, 371
- Cecil B. De Mille Pictures Corp., Goudal v., **90–94**, 94n.1
- Celotex Corp. v. Catrett, 9n.29
- Cerasani v. Sony Corporation, 178
- Chadha, INS v., 418
- Chambers v. Time Warner, Inc., 690
- Champions Golf Club, Inc. v. Champions Golf Club, Inc., 747
- Chandler v. Roach, 312
- Chanel, Inc., Smith v., 754
- Chanel, Inc. v. Italian Activewear of Florida, Inc., 759
- Chaplin v. NBC, Inc., 214
- Charles N. Daniels, Inc., Miller Music Corp. v., **340–342**, 344–345, 346, 347, 350–351
- Charter Communications, Inc., U.S. Naval Institute v., 335
- Cherry Auction, Inc., Fonovisa, Inc. v., 703, 731
- Cherry River Music Co. v. Simitar Entertainment, Inc., 601–602
- Cher v. Forum International, Ltd., 254–255, 261
- Chesebrough-Ponds, Inc., Deerfield Communications Corp. v., 371
- Chesler v. Avon Book Division, 396, **400–402**
- Childress v. Taylor, 785, **787–792**, 793n.1
- Chimes v. Oritami Motor Hotel, Inc., 520
- Chinn v. Tobin, **56–59**
- Chock Full o'Nuts Corp., Baker v., 541
- Chow v. Levi Strauss, 477
- Christian Dior, Onassis v., 193n.3, 260
- Christie, Bethlehem Engineering Export Co. v., 111–112
- Chussid, Levine v., 374
- CIBY 2000, David Lynch v., 392n
- Cimino arbitration (Michael Cimino/Sweetwater Films, Ltd. and Gladden Entertainment Corp. re: "The Sicilian"), 390, 393–395, 637
- Cinematografica de Las Americas, De Laurentiis v., 90n.4

- Cinevision v. City of Burbank, 404, **414–419**
- Citibank, N.A. v. Citytrust, 155
- City of. *See name of city*
- Citytrust, Citibank, N.A. v., 155
- Clarke Checks, Inc., John H. Harland Co. v., 759–760
- Clark Paper & Mfg. Co. v. Stenacher, 454
- Clarkson, Penton v., 425
- Clark v. ABC, Inc., **159–163**, 170n, 179
- Cleary v. News Corp., **113–116**, 123, 127n, **135–139**
- Clemens v. Belford, Clark & Co., 142, 143
- Cliff Notes, Inc. v. Bantam Doubleday Dell Publishing, Inc., 264n.2
- Clifford Davis Mgt. Ltd. v. WEA Records Ltd., 619–620
- C.L. Peck Contractor, Inc., Newsday, Inc. v., 158
- Cody v. Gallow, 374
- Cohen v. California, 269, 407, 422
- Cohen, Effects Assocs., Inc. v., 734
- Cohen v. Paramount Pictures Corp., 322, 332, 333, 334, 335nn.1,2
- Cohen v. Wedbush, Noble, Cooke, Inc., 520
- Cohn, Cox Broadcasting Corp. v., 188
- Cole, Loew's Inc. v., 95n.3, 457n.3
- Cole v. Phillips H. Lord, Inc., 319
- Colligan v. Activities Club of New York, Ltd., 132
- Collins, Stuart v., 622n.1
- Collins Managements, Pump, Inc. v., **266, 275–280**
- Columbia Broadcasting System. *See* CBS, Inc.
- Columbia Pictures Corp., Preminger v., 395n.1
- Columbia Pictures, Inc., Mann v., 282, 294, 304n.1
- Columbia Pictures Industries, Inc., DeClemente v., 275n.2
- Columbia Pictures Industries, Inc., A.L.K. Corporation v., 679
- Columbia Pictures Industries, Inc., Rooney v., 332, 334
- Columbia Pictures Industries, Inc. v. Redd Horne Inc., 758
- Comline Business Data, Inc., Nihon Keizai Shimbun, Inc. v., 719
- Commodore Business Machines, Inc., Computer Strategies, Inc. v., 8n.11, 9n.34
- Community for Creative Non-Violence v. Reid, 514
- Compco Corp. v. Day-Brite Lighting, 233
- CompuServe, Inc. v. Patterson, 696, 699, 699n, 701, 765
- Computer Associates v. Altai, 766n.1
- Computer Consoles, CB Western Financial v., 371
- Computer Food Stores, Inc. v. Corner Store Franchises, 744
- Computer Strategies, Inc. v. Commodore Business Machines, Inc., 8n.11, 9n.34
- Comstock, Harry Rodgers Theatrical Enterprises v., 442
- Concert Connection, People v., 694
- Connectix Corporation, Sony Computer Entertainment v., 764n.2
- Conrad, Southeastern Promotions Ltd. v., 415
- Con-Stan Indus., Nutri/System, Inc. v., 745, 748
- Construction General Inc., In re (Angeles Real Estate Co. v. Kerxton), 516
- Consumers Union, Bose v., 180
- Contemporary Mission, Inc. v. Famous Music Corp., 369, 378, 385n, 461n.2, 609
- Continental Casualty Co., Farbman & Sons v., 613n.2
- Continental Nat. Bk. v. Strauss, 75
- Conway v. Bughouse, Inc., 439
- Copyright Royalty Tribunal, Recording Industry Ass'n of America v., **338–340**
- Corner Store Franchises, Computer Food Stores, Inc. v., 744
- Corona City Water Co., McConnell v., 606
- Corsetti, De Rivafinoli v., 453
- Cortner v. Israel, 377
- Costa-Gavras, Davis v., 179
- Costanza v. Seinfeld, 182
- Cottman Transmission Systems, Inc. v. Martino, 705
- Courier Times, Inc. v. United Feature Syndicate, Inc., 679
- Covered Bridge Condominium Assoc, Inc., Showtime/The Movie Channel v., 760
- Cox Broadcasting Corp. v. Cohn, 188
- Croce v. Kurnit, 15, 16, **19–26**
- Crocker National Bank, Perdue v., 387, 468, 469, 471
- Cunningham, Grimston v., 441
- Curry, Wachs v., 52, 54
- Curtis, Doubleday & Company, Inc. v., **363–368**

- Curtis Publishing Co., Booth v., 251, 252, 254
- Curtis Publishing Co., Middlebrooks v., 176
- Curtis Publishing Co. v. Butts, 162
- Cybergold, Inc., Martiz, Inc. v., 703
- Cyber Sell, Inc., Cybersell, Inc. v., 715n.3
- Cybersell, Inc. v. Cyber Sell, Inc., 715n.3
- Daddy's Junky Music Stores, Inc. v. Big Daddy's Family Music Ctr., 750
- Dallas, City of v. Stanglin, 404, 413n.8
- Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 130, 269
- Daly v. Smith, 441
- Dam v. Kirk La Shelle Co., 284
- Daniel Goldreyer, Ltd. v. Dow Jones & Company, Inc., 158–159
- Danning v. Pacific Propeller, Inc. (In re Holiday Airlines Corp.), 514
- Darby v. Campagnie Nationale Air France, 695
- Darden Restaurants, Inc., Prima v., 248
- Darienzo v. Wise Shoe Stores, Inc., 695
- Data Concepts, Inc. v. Digital Consulting, Inc., 741, 742
- David Lynch v. CIBY 2000, 392n
- Davidson v. Time Warner, Inc., 419
- Davies v. Krasna, 314n
- Davis, William Morrow & Co. v., 368n.2
- Davis v. Costa-Gavras, 179
- Day-Brite Lighting, Compco Corp. v., 233
- D.C. Comics, Inc. v. Mini Gift Shop, 758
- DC Congress GmbH, Meckler Media Corp. v., 690
- Dean Witter Reynolds, Inc. v. Superior Court, 467–468
- Debs v. Meliopoulos, 761
- DeClemente v. Columbia Pictures Industries, 275n.2
- Deerfield Communications Corp. v. Chesebrough-Ponds, Inc., 371
- Defiant, Marvel Comics Ltd. v., 744
- DeFilippo v. NBC, Inc., 426
- Deftones, Park v., 52–56
- De Haviland v. Warner Brothers Pictures, Inc., 69, 79–83, 81n.1, 85, 111, 632
- Delacorte Press, Wojtowicz v., 212n.4
- De la Palaise v. Gaumont-British Picture Corp., Ltd., 392n
- De Laurentiis v. Cinematografica de Las Americas, 90n.4
- Dell Publishing, Co., Wheeler v., 175–176
- Dell Publishing Co. v. Whedon, 368n.1
- Delman, Sabo v., 371
- Del Puente, Mapleson v., 441–442
- DeMille Co. v. Casey, 436–437
- Democratic Comm., CBS, Inc. v., 421
- Denckla, Hanson v., 698
- DePasse, Ruffin-Steinback v., 178
- De Rivafinoli v. Corsetti, 453
- Desny v. Wilder, 282, 294–304, 304n.1, 312, 313n, 638
- Deteresa v. ABC, Inc., 185n.4
- Deucht v. Storper, 88
- Dewes, Fitch v., 446
- Diamond Multimedia Systems, Inc., Recording Industry Ass'n of America v., 691, 716, 727, 732
- Diamond v. Oreamuno, 64
- Diaz v. Oakland Tribune, Inc., 186–192
- Di Giovanni v. Camden Fire Ins. Ass'n, 446
- Digital Consulting, Inc., Data Concepts, Inc. v., 741, 742
- Dillingham, Fisher v., 286
- Dillon, Webster v., 445
- Distinguished Productions, Inc., Northern Songs, Ltd. v., 514
- District Court of Appeal, Abelleria v., 47
- Division of Labor Law Enforcement, Garson v., 47
- Dockstader v. Reed, 110
- Dodd, Mead & Company, Inc. v. Lilienthal, 431–435
- Dolores Robinson Entertainment, Snipes v., 52n
- Domeyer v. O'Connell, 126
- Domino's Pizza, Inc., Amstar Corp. v., 759
- Donahue v. Ziv Television Programs, Inc., 312
- Donald E. Biederman, Agents v. Managers, 59n
- Donaldson Lithographing Co., Bleistein v., 300
- Donsco, Inc. v. Casper Corp., 131
- Dora v. Frontline Video, Inc., 8n.6, 253, 254
- Doubleday & Co., Inc., Cardillo v., 178
- Doubleday & Company, Inc. v. Curtis, 363–368
- Doubleday Sport, Inc., Eastern Microwave, Inc. v., 687n.2
- Douds, Worthington Pump & Machinery Corp. v., 446
- Dow Corning Corp., IMO Development Corp. v., 473
- Dow Jones & Company, Inc., Daniel Goldreyer, Ltd. v., 158–159

- Downey v. General Foods Corp., 317, 319
 Drake Publishers, Inc., L.L. Bean, Inc. v.,
 240, 242
 Dreamwerks Prod. Group v. SKG Studio,
 745, 747, 750
 Dr. Seuss Enters. v. Penguin Books USA,
 Inc., 735, 740, 752–753, 754
 Dryden v. Tri-Valley Growers, 614n
 Dumas, Playboy Enterprises, Inc. v.,
 539n.1
 Dun & Broadstreet, Inc. v. Greenmoss
 Builders, Inc., 179
 Dunlop-McCullen v. Local I-S, AFL-CIO-
 CLC, 720
 DVD Copy Control Ass'n, Inc. v. Mc-
 Laughlin, 736
 Dymow v. Bolton, 284
 Dynascan Corp., Babbitt Electronics, Inc.
 v., 760
 Dytron Alloys Corp., American Eutectic
 Welding Alloys Sales Co. v., 694
- E. & J. Gallo Winery v. Gallo Cattle Co.,
 750
 Earthweb, Inc. v. Schlack, 457n.4
 Eastern Microwave, Inc. v. Doubleday
 Sport, Inc., 687n.2
 Eastwood v. Superior Court, 186, 238–
 239, 241, 250, 253, 255n
 Eclipse Enterprises Inc. v. Gulotta,
 414n.9
 Editorial Musical Latino Americana, S.A.
 v. Mar Int'l Records, Inc., 697
 Edmondson, Byers v., 420, 424–430
 Ed Sullivan Radio & T.V., Sullivan v.,
 266n.7
 Effects Assocs., Inc. v. Cohen, 734
 Egan v. Mutual of Omaha Ins. Co., 191
 Ehlers v. Langley & Michaels Co., 93
 Ehrenworth v. George F. Stuhmer & Co.,
 88
 800 Reservation, Inc., Holiday Inns, Inc.
 v., 754
 Eikenberry, Soundgarden v., 404, 411n.4,
 584
 Ekern v. Sew/Fit Company, Inc., 377
 Electric Corp. v. Solar Sound Systems,
 Inc., Matsushita Electric Corp. v., 131
 Electronic Dispensers International, Ger-
 dlund v., 389
 Elektra Entertainment, We're Only In It
 For the Music v., 83n.6
 Elliott, Zink Communication v., 457n.2,
 461n.1
 Elliott-McGowan Productions v. Republic
 Productions, 565n.1
 Elmhurst v. Shoreham Hotel, 208
 Elton Hercules John v. Richard Leon
 James, 489–496, 496n, 570n
 Elvin Associates v. Franklin, 785–786
 Emerson Radio Corp., Newman v., 467n.4
 Emus, Harris v., 565n.1
 Enberg, Faris v., 294, 313n
 Enerlite Products Corp., Marathon Mfg.
 Co. v., 760
 Engel v. CBS, Inc., 16, 29–30, 30nn.1,2
 E.P. Dutton, Inc., Sobol v., 377
 EPIX, Inc., Interstellar Starship Services,
 Ltd. v., 746, 747
 E. Remy Martin & Co. v. Shaw-Ross Int'l
 Imports, Inc., 747, 748
 Erickson v. Trinity Theatre, Inc., 785–786,
 793n.1
 Esquire, Inc., Grant v., 234–235
 Esquire, Inc., Vargas v., 115, 123–127,
 136, 137
 Estate of Elvis Presley v. Russen, 265n.3
 Ettore v. Philco Television Broadcasting
 Corp., 332
 Exercycle Corp. v. Maratta, 521
 Exercycle v. Maratta, Matter of, 88
 Exxon Corp. v. Texas Motor Exchange of
 Houston, Inc., 759
- Faber, Bally Total Fitness Holding Corp.
 v., 754
 Fairchild Publications, Schisgall v., 375–
 377
 Fair Employment & Housing Com., Rob-
 inson v., 53
 Faloon by Frederickson v. Hustler Maga-
 zine, Inc., 71
 Falwell, Hustler Magazine v., 180, 240,
 242
 Famous Music Corp., Contemporary Mis-
 sion, Inc. v., 369, 378, 385n, 461n.2,
 609
 Farbman & Sons v. Continental Casualty
 Co., 617n.2
 Farino, Mellon Bank (East) PSFS, N.A. v.,
 697, 698
 Faris v. Enberg, 294, 313n
 Farmer's Ins. Exchange, Neal v., 191
 Farr v. Newman, 437
 Fawcett Publications, Inc., Branson v.,
 227
 Fawcett Publications, Inc., Carlisle v., 253
 FCC, Writers Guild of America, West,
 Inc. v., 421

- FCC v. Pacifica Foundation, 422, 423, 704n, 705n
- Federal Baseball Club of Baltimore, Inc. v. National League of Professional Baseball Club, 642
- Feinberg, Toys “R” Us, Inc. v., 747
- Feist Publications, Inc. v. Rural Telephone Company Service, 766n.2
- F.E.L. Publications, Ltd. v. National Conference of Catholic Bishops, 132
- Ferber v. Sterndent Corp., 319
- Ferguson, Carter v., 111
- Ferguson v. Writers Guild of America, West, Inc., 112, 121n
- Ferris, Blake v., 86
- Film Ventures International, Inc., Universal City Studios, Inc. v., 282, **290–294**
- Filmvideo Releasing Corp. v. Hastings, 331
- Filner v. Shapiro, 375
- Fink v. Goodson-Todman Enterprises, Ltd., 313n
- Finlev, National Endowment for The Arts v., 419n.2
- Firestone case, 162
- First Maryland Leasecorp v. M/V Golden Egret, 518
- Fisher Co. v. Witmark & Sons, 341
- Fisher v. Dillingham, 286
- Fisher v. Star Co., 127
- Fitch v. Dewes, 446
- Fleischmann Distilling Corp. v. Maier Brewing Co., 132, 747, 749, 750
- Flockton, Montague v., 453
- Flynt Distributing Co., Lerman v., 194n.8, **195–202**, 250, 691
- FMC Corporation, A & M Produce Co. v., 467, 468, 469, 474, 475
- Foley v. Interactive Data Corp., 467n.4
- Follett v. Arbor House Publishing Co., Inc., 123, **143–149**
- Fonovisa, Inc. v. Cherry Auction, Inc., 730, 731
- Food Lion, Inc. v. Capital Cities/ABC, Inc., 180
- Ford, Bacon & Davis, Inc. v. M.A. Holahan, 503, 506
- Ford Motor Company, Midler v., 226, **229–231**, 231n, 233–234, 236, 239, 257
- Ford Motor Co. v. Summit Motor Prods., Inc., 751
- Ford Motor Co. v. United States, 655
- Ford v. Howard, 623n.4
- Forest Publishing Co., Cantrell v., 191
- Formgen, Inc., Microstar v., 766
- Forrest R.B. Enterprises, Inc. v. Capricorn Records, Inc., 589, **609–611**
- Forsher v. Bugliosi, 188
- Forum International, Ltd., Cher v., 254–255, 261
- Foundation for National Progress, Sipple v., 179n.2
- Fox Broadcasting Co., In re (United States v. ASCAP), **577–578**
- Fox Film Corp., L. C. Page & Co. v., 332
- Fox Film Corp. v. Knowles, 341
- Fox v. Boucher, 695, 696
- Foxx v. Williams, 82n.3
- Frances v. New York and Brooklyn Elevated Railroad Co., 76
- Francis, Scheck v., 103n.4
- Francis X. Weber a/k/a Frank Weber, et al., William Martin Joel a/k/a Billy Joel and Electric Company Productions, Inc. v., 8n.14, 9n.34
- Franke v. Wiltschek, 63
- Franklin, Elvin Associates v., 785–786
- Franklin, Pryor v., **48–50**, 59n
- Frank Schaffer Publications, Inc. v. The Lyons Partnership, 8n.2
- FRA S.p.A. v. SURG-O-FLEX of America, Inc., 131
- Frederick, Lines v., 510
- Free Republic, L.A. Times v., 725, 727
- Freed v. Manchester Service, Inc., 614n
- Freeman, Jacobs v., 478
- Frena, Playboy Enterprises, Inc. v., **757–761**
- French, Beruan v., 190
- French v. Merrill, Lynch, Pierce, Fenner & Smith Co., 520
- Freund v. Washington Square Press, Inc., **458–461**
- Frito-Lay, Waits v., 226, **231–237**
- Frontline Video, Inc., Dora v., 8n.6, 253, 254
- Frostifresh Corporation v. Reynoso, 479–480
- F.R. Pub. Corp., Sidis v., 194, 206
- Fruehauf Corp., Truck Equipment Service Co. v., 131
- Fugua v. Watson, 623n.4
- Fuji Photo Film Co. v. Shinohara Shoji Kabushiki Kaisha, 748
- Fulcher, Lichter v., 614n
- Gallagher, Shubert Theatrical Co. v., 453
- Gallo Cattle Co., E. & J. Gallo Winery v., 750

- Gallow, Cody v., 374
 Garson v. Division of Labor Law Enforcement, 47
 Gateway 2000, Inc., Brower v., 766
 Gateway 2000, Inc., Hill v., 766
 Gateway Marine, Inc., Patmont Motor Works, Inc. v., 754
 Gaumont-British Picture Corp., Ltd., De la Palaise v., 392n
 Geary v. Goldstein, 193n.6
 Geffen Records, Inc. v. Henley, 83n.6
 Geisel v. Poynter Products, Inc., 193n.2, 261, 328, 530, 542–543
 General Cinemas Corp. v. Buena Vista Distribution Co., 654, 655
 General Foods Corp., Downey v., 317, 319
 General Mills, Inc., A-Mark Coin Co. v., 250
 General Motors Corp., Tacket v., 711–712
 Gennaro v. Rosenfeld, 772, 785–786, **786–787**
 George, Penato v., 23, 374
 George F. Stuhmer & Co., Ehrenworth v., 88
 George Putnam & Co., Hydro-Dynamics, Inc. v., 743
 Georgia, Jenkins v., 407–408
 Georgia-Pacific Corp., York v., 473
 Georgios Panayiotou v. Sony Music Entertainment (U.K.) Limited, **496–499**
 Gerdlund v. Electronic Dispensers International, 389
 Gerling, Red Carpet Homes of Johnstown, Inc. v. (In re Knapp), 514
 German Educational Television Network, Ltd. v. Oregon Public Broadcasting, 693
 Gertz v. Robert Welch, Inc., 162–163, 179, 191, 423
 Giannoulas, KGB Inc. v., 457n.3
 Gieseking v. Urania Records, Inc., 146
 Gilliam v. ABC, Inc., 154, 323, **396–400**, 403n
 Ginsberg v. New York, 703, 704n, 705n
 Ginzberg v. United States, 406, 408
 Glendale, City of v. Superior Court, 387
 Globe Communications Corp., Kaelin v., 163
 Globe International, Inc., Khawar v., 179
 Globe International, Inc., Krauss v., 179n.1
 Glovarama, Inc. v. Maljack Productions, Inc., 377–378, 378n.2
 Gold, Random House, Inc. v., **354–357**, 363
 Goldfarb v. Strauss, 614n
 Gold Leaf Group, Ltd. v. Stigwood Group, Ltd., 112, **116–117**
 Goldsmith, Maurizio v., 793n.2
 Goldstein, Geary v., 193n.6
 Goldstein v. California, 216, 234
 Goldwater, Harcourt Brace Jovanovich, Inc. v., **357–363**
 Goodis v. United Artists Television, Inc., 326, 329n
 Goodson-Todman Enterprises, Ltd., Fink v., 313n
 Goodyear Tire & Rubber Co., Big O Tire Dealers, Inc. v., 277
 Goodyear Tire & Rubber Co., Sinatra v., 229
 Goodyear Tire & Rubber Co., VTR Incorporated v., 387
 Gordon, Allen v., 172
 Goss, Official Airline Guides, Inc. v., 742, 749, 750
 Goudal v. Cecil B. De Mille Pictures Corp., **90–94**, 94n.1
 Gough v. Roosmoor, 686
 Gourmet Farms, Balfour, Guthrie & Co. v., 388
 Graham v. Scissor-Tail, Inc., 465, 466, 467, 468, 475, 524–525
 Grainger, Tele-Pac, Inc. v., 333–335, 335n.2
 Grand Upright Music, Ltd. v. Warner Brothers Records, Inc., 550, **578–579**, 584
 Grant Richard ex p. Warwick Deeping, In re, 491–492
 Grant v. Esquire, Inc., 234–235
 Grant v. Kellogg Co., 126
 Granz v. Harris, 328, 400
 Graubard Mollen Dannett & Horowitz v. Moskowitz, 30–31n.3
 Great Atlantic & Pacific Tea Co., Nifty Foods Corp. v., 376
 Great Atlantic & Pacific Tea Co., Rowe v., 375
 Greenbrier Cinemas, Inc. v. Attorney General, 654
 Greene, Moore v., 235
 Greene v. Greene, 23
 Greenmoss Builders, Inc., Dun & Broadstreet, Inc. v., 179
 Gregg v. McDonald, 94
 Griffith, United States v., 650
 Grimaldi, Rogers v., **266–274**
 Grimston v. Cunningham, 441
 Gross, Shields v., 71, 193n.5

- Grossman v. Laurence Handprints-N.J., Inc., 372
- Group W. Productions, Shulman v., 184n.1
- Gruner + Jahr, Messsenger v., 212n.3
- Guccione v. Hustler Magazine, Inc., 178
- Guglielmi v. Spelling-Goldberg Productions, 217, 244, 255
- Guillory, The Boogie Kings v., 623n.4
- Gulotta, Eclipse Enterprises Inc. v., 414n.9
- Gypsum Co., United States v., 656
- H.A. Artists & Associates v. Actors' Equity Association, 31–32
- Haelan Laboratories, Inc. v. Topps Chewing Gum, 213–214, 252
- Haight v. Badgeley, 453
- Halicki v. United Artists Communications, Inc., 134, 230
- Hall, Helicopteros Nacionales de Colombia, S.A. v., 698
- Hall Syndicate, Inc., Ketcham v., 82n.3, 83–90
- Hanlon v. Berger, 185n.2
- Hanson v. Denckla, 698
- Harcourt Brace Jovanovich, Inc. v. Goldwater, 357–363
- Hardman, Whitwood Chem. Co. v., 110
- Harlequin Enterprises, Ltd., Pinnacle Books, Inc. v., 536–537, 545–548, 548n.
- Harmony Books, Bernbach v., 135n
- Harper & Row, Publishers, Inc. v. Nation Enterprises, 153, 718, 725
- Harper House, Inc. v. Thomas Nelson, Inc., 138
- Harris, Granz v., 328, 400
- Harris, Michigan Stone & Supply Co. v., 617
- Harrisons Music, Bright Tunes Music Corp. v., 61
- Harrisons Music, Ltd., ABKCO Music Inc. v., 14, 59–65
- Harris v. Emus, 565n.1
- Harris v. Pizza Hut of Louisiana, 425
- Harris v. United States, 203
- Harry Rodgers Theatrical Enterprises v. Comstock, 442
- Hasbro Bradley, Inc. v. Sparkle Toys, Inc., 718
- Hasbro, Inc. v. Lanard Toys, Ltd., 152
- Hastings, Filmvideo Releasing Corp. v., 331
- Havel v. Kelsey-Hayes, 375
- Haven, Howard v., 614n
- Hayden Publishing Co., Van Valkenburgh, Nooger & Neville, Inc. v., 369, 372, 374, 377, 378
- Hearst Entertainment, Inc., Bloom v., 323, 335n.1
- Hearst Publications, Noral v., 177n.2
- Helicopteros Nacionales de Colombia, S.A. v. Hall, 698
- Henger-Seltzer Co., Steelduct Co. v., 606
- Henley, Geffen Records, Inc. v., 83n.6
- Hepps, Philadelphia Newspapers, Inc. v., 180, 712
- Herbert v. Lando, 178
- Here's Johnny Portable Toilets, Inc., Carson v., 226, 228nn.1,2, 239
- Hertz Sys., Inc. v. Hervis Corp., 694
- Hervis Corp., Hertz Sys., Inc. v., 694
- Hess v. Indiana, 428
- Hexamer v. Webb, 86
- Hibernia Savings & Loan, Lee v., 72
- Highland Music, Inc., Peterson v., 435, 438–440, 444n
- Hill, Time, Inc. v., 199, 215, 216, 229, 421
- Hillsborough County v. Automated Medical Laboratories, Inc., 514
- Hill v. Gateway 2000, Inc., 766
- Hirsch, BMI, Inc. v., 519n.5
- Hirsch v. S.C. Johnson & Son, Inc., 228n.1
- Hoehling v. Universal City Studios, Inc., 147
- Holiday Airlines Corp., In re (Danning v. Pacific Propeller, Inc.), 519
- Holiday Inns, Inc. v. 800 Reservation, Inc., 754
- Holly Johnson, Zang Tumb Tumb Records Ltd., et al. v., 487n.2, 488nn.3,6,7,8, 609
- Holt, Rinehart & Winston, Inc., Rinaldi v., 158
- Home Box Office, Inc., Jilley Film Enterprises, Inc. v., 103n.9
- Home Box Office, Inc., Orth-O-Vision, Inc. v., 687n.1
- Home Box Office, Inc. v. Pay TV of Greater New York, Inc., 684–687
- Horgan v. MacMillan, Inc., 155
- Hornstein v. Podwitz, 613n.2
- Host International, Wendt v., 243n.2
- Hotmail Corp. v. Van Money Pie, Inc., 765
- Howard, Ford v., 623n.4
- Howard, Ivy v., 48n.2
- Howard v. Haven, 614n
- Howard v. Murray, 23

- Howard v. Societa Di Unione, etc., 483
 Howell v. Tribune Entertainment Co., 212n.5
 H.R. Indus., Inc., Richard Feiner & Co., Inc. v., 720
 Huggins v. Moore, 179
 Humongous Entertainment Company, Lucasarts Entertainment Company v., 8n.2
 Hums v. Margie Ventures, Inc., 58
 Hunt, Local Loan Co. v., 510
 Hustler Magazine, Inc., Faloon by Frederickson v., 71
 Hustler Magazine, Inc., Guccione v., 178
 Hustler Magazine v. Falwell, 181, 240, 242
 Hustler Magazine, Inc., v. Moral Majority, Inc., 724
 Huston, Turner Entertainment Co. v., 403n
 Hyde, Jefferson Parish Hosp. Dist. No. 2 v., 676, 677–678
 Hydro-Dynamics, Inc. v. George Putnam & Co., 743
- Illinois, Pope v., 408
 IMO Development Corp. v. Dow Corning Corp., 473
 IMS, America Online, Inc. v., 718
 Independent Nat'l Distributors, Inc. v. Black Rain Communications, Inc., 695
 Indiana, Hess v., 428
 Indianapolis Colts, Inc. v. Metropolitan Baltimore Football Club, Ltd., 701, 748
 Infinity Broadcast Corp. v. Kirkwood, 718, 719, 723
 Innovation Books, King v., 8n.1, 9nn.20,21, 123, **149–156**
 In re. *See name of party*
 Inset Systems, Inc. v. Instruction Set, 699
 Institut Pasteur v. Cambridge Biotech Corp., 512n.2
 Instone v. A. Schroeder Music Publishing Co., Ltd., 490–496
 Instruction Set, Inset Systems, Inc. v., 699
 INS v. Chadha, 418
 Interactive Data Corp., Foley v., 467n.4
 International Boxing Club, United States v., 443–444
 International Life Ins. Co., McGee v., 701
 International News Service v. Associated Press, 127
 International Salt Co. v. United States, 656, 672
 International Shoe Co. v. Washington, 695, 698, 701
 International Skating Union, Candid Productions v., 88n.1, 103–104n.9
 International Telesis Comms., Pacific Telesis v., 749, 751
 Interstellar Starship Services, Ltd. v. EPIX, Inc., 746, 747
 Irving Music, Inc., Adams v., 83n.5
 Irvington Trust Co., Waterson, Berlin & Snyder Co., v., 376
 Israel, Cortner v., 377
 Israel v. Wood Dolson Co., 613n.2, 614n
 Italian Activewear of Florida, Inc., Channel, Inc. v., 759
 ITC Entertainment, Ltd. v. Nelson Film Partners, 8n.12, 9nn.33,34
 Ivy v. Howard, 48n.2
- Jaccard v. R. H. Macy & Co., Inc., 142
 Jackson v. MPI Home Video, 254
 Jacobs v. Freeman, 478
 Jartran, Inc., U-Haul Int'l, Inc. v., 134
 Jarvis v. A & M Records, 8n.7, 9n.27
 Jefferson Federal Savings and Loan Association, Slaughter v., 475
 Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 676, 677–678
 Jenkins v. Georgia, 407–408
 Jensen, M. Witmark & Sons v., 569
 Jerry Vogel Music Co., Inc., Warfield v., 375
 Jilley Film Enterprises, Inc. v. Home Box Office, Inc., 103n.9
 Johansson, Machen v., **442–447**, 615n
 John H. Harland Co. v. Clarke Checks, Inc., 759–760
 John J. Reynolds, Inc., Warner-Lambert Pharmaceutical Company, Inc. v., 88
 Johnson, Buckaloo v., 614n
 John Wright, Inc. v. Casper Corp., 131
 Jonas, Prinze v., 73–74
 Jones v. Rath Packing Co., 713
 Joplin Enterprises v. Allen, 247n.2
 Joseph, L & L White Metal Casting Corp. v., 130
 Joseph Burstyn, Inc. v. Wilson, 255, 415, 421, 427
 Joseph Vian v. Mariah Carey, 8n.8, 9n.26
 Joseph v. Schatzkin, 75–76
 Julian Messner, Inc., Spahn v., 186, **192–193**
 Julian v. American Business Consultants, Inc., 172
- Kaelin v. Globe Communications Corp., 163

- Kapellas v. Kofman, 188, 190
Kaplan v. California, 407–410
Karrer, Schmann v., 610
Kastel, Casey v., 75–76
Keimer v. Buena Vista Books, 536n
Kelley v. William Morrow, 336n.4
Kellogg Co., Grant v., 126
Kelsey-Hayes, Havel v., 375
Kerxton, Angeles Real Estate Co. v. (In re Construction General Inc.), 521
Ketcham v. Hall Syndicate, Inc., 82n.3, **83–90**
KGB Inc. v. Giannoulas, 457n.3
Khawar v. Globe International, Inc., 179
Killiam Shows, Inc., Rohauer v., 343, 344, 345, 347, 348, 349
King, Bensusan Restaurant Corp. v., 690, **692–696**, 699
King Records, Inc. v. Brown, 442
Kingsley Pictures Corp. v. Regents, 422
Kingsmen v. K-Tel International Ltd., 622n.2
King, The, Reading v., 492
King v. Innovation Books, 8n.1, 9n.20,21, 123, **149–156**
Kinko's Graphics Corp., Basic Books, Inc. v., 718
Kirke La Shelle Co. v. Paul Armstrong Co., 125, 332
Kirk La Shelle Co., Dam v., 284
Kirkwood, Infinity Broadcast Corp. v., 718, 719, 723
Kiss (a partnership) and Kiss Organization, Ltd., Rock Tours, Ltd. v., 104n.10
Kitt v. Capital Concerts, Inc., 186
KMLA Broadcasting Corp. v. Twentieth Century Cigarette Vendors Corp., 684, 685
Knapp, In re (Red Carpet Homes of Johnstown, Inc. v. Gerling), 514
Knowles, Fox Film Corp. v., 341
Koch International Corp., Rostropovich v., 143
Kofman, Kapellas v., 188, 190
Kois v. Wisconsin, 409
Kokoszka v. Belford, 511
Koussevitsky v. Allen, Towne & Heath, 141
Kraft, Inc., AmBrit, Inc. v., 759
Krasna, Davies v., 314
Krauss v. Globe International, Inc., 179n.1
Kregos v. Associated Press, 8n.7, 9n.28
K-Tel International Ltd., Kingsmen v., 622n.2
KTTV, April Enterprises, Inc. v., 388
Kulko v. Superior Court of California, 698, 701
Kurnit, Croce v., 15, 16, **19–26**
Kusan, Inc., Walt Disney Productions, Inc. v., 744
KUTV, Inc., Cable Vision, Inc. v., 685
Kweskin, Vanguard Recording Society, Inc. v., 442, **447–450**, 619n
L.A. Times v. Free Republic, 725, 727
L & L White Metal Casting Corp. v. Joseph, 130
L.L.C. Parish of Jefferson, Treasure Chest Casino v., 425
Lacoff v. Buena Vista Publishing, NYLJ, 536n
LaFace Records, Rosa Parks v., 274n
Lafferty, Rey v., 323, **329–335**, 335nn.1,2
Lahr v. Adell Chemical Co., 230
L'Aiglon Apparel Co. v. Lana Lobell, Inc., 132
Laine, Pine v., 32, **36–37**
Lake Shore National Bank, Martindell v., 617
LaMacchia, United States v., 715
Lamothe v. Atlantic Recording Corp., 123, **133–135**, 137, 138
Lana Lobell, Inc., L'Aiglon Apparel Co. v., 132
Lanard Toys, Ltd., Hasbro, Inc. v., 152
Lando, Herbert v., 178
Landon v. Twentieth Century-Fox Film Corp., **323–328**, 329n
Lane v. Mercury Record Corp., 374
Langley & Michaels Co., Ehlers v., 93
Larson, Thomson v., 793n.1
Laughner's Drive-In, Inc., Steer Inn Systems, Inc. v., 744
Laurence Handprints-N.J., Inc., Grossman v., 372
Laurie, Raden v., 46, 47
Lawrence, Southeast Bank, N.A. v., 247
Layne, Wilson v., 185n.2
L. C. Page & Co. v. Fox Film Corp., 332
Leading Authorities, Inc., Washington Speakers Bureau, Inc. v., 740, 749
League of American Theatres and Producers, Inc., Matter of, Wells v., 777n.2
Lee v. Hibernia Savings & Loan, 72
Leigh, Wasserman v., 785–786, **793–799**
Lemat Corp. v. Barry, 111, 457n.3
Leo Feist, Inc. v. Apollo Records, 602
Leon T. Shettler Co., Williams v., 72
Leopold v. Levin, 194, 211n.1

- Lepel High Frequency Labs v. Capita, 454
- Lerma, Religious Tech. Ctr. v., 727
- Lerman v. Flynt Distributing Co., 194n.8, 195–202, 250, 691
- Lesser, Weitzenkorn v., 304n.1
- Levey v. Warner Brothers Pictures, Inc., 176
- Levin, Leopold v., 194, 211n.1
- Levine v. Chussid, 374
- Levi Strauss & Co. v. Blue Bell, Inc., 751
- Levi Strauss, Chow v., 477
- Lewis & Queen v. N.M. Ball Sons, 46–47
- Lewis Galoob Toys, Inc. v. Nintendo of America, Inc., 752, 761–764, 764n.1
- Lewis v. United States, 543
- Lichter v. Fulcher, 614n
- Liebman, Mandel v., 32, 36, 37–39
- Lilienfeld's Estate, Sylvania Industrial Corp. v., 433
- Lilienthal, Dodd, Mead & Company, Inc. v., 431–435
- Lindheim, Shaw v., 137, 138
- Lines v. Frederick, 510
- Lippman v. Sears, Roebuck & Co., 387
- Liquichimica of America, Inc., Thompson v., 548n
- Lister & Co. v. Studds, 492
- L.L. Bean, Inc. v. Drake Publishers, Inc., 240, 242
- Lloyd Corp. v. Tanner, 268–269
- Local I-S, AFL-CIO-CLC, Dunlop-McCullen v., 720
- Local Loan Co. v. Hunt, 510
- Lockheed Missiles & Space Co., Brandt v., 388
- Loeb and Loeb v. Beverly Glen Music, Inc., 8n.13
- Loew's, Inc., United States v., 671, 671–675, 676, 677
- Loew's Inc. v. Cole, 95n.3, 457n.3
- Lorain Journal, Milkovich v., 158
- L'Oreal, S.A., Zazu Designs v., 743
- Lorimar Productions, Inc., Viacom International, Inc. v., 675, 680n
- Lorimar Productions, Inc. v. A.V. Productions, Inc., 463n.5
- Los Angeles News Serv. v. Reuters Television Int'l Ltd., 718
- Lotus Development Corp., SAPC, Inc. v., 331
- Loving & Evans v. Blick, 47
- Lucasarts Entertainment Company v. Humongous Entertainment Company, 8n.2
- Lucasfilm, Ltd., Platinum Record Co. v., 333, 334
- Lucy, Lady Duff-Gordon, Wood v., 38, 87, 376, 378–379, 385n, 388, 617–618
- Lugosi v. Universal Pictures, 217, 244, 253
- Lukas aka Susan St. James v. Universal, 82n.2
- Lumley v. Wagner, 111, 441, 457
- Lunney v. Prodigy Services Company, 713n
- Lustig, Pet, Inc. v., 24
- Lustig v. Schoonover, 71
- Lyl Productions, Mason v., 95n.2
- Lyons Partnership, The, Frank Schaffer Publications, Inc. v., 8n.2
- Lyons v. New American Library, Inc., 172
- M/V Golden Egret, First Maryland Lease-corp v., 518
- Macaulay, A. Schroeder Music Publishing Co. v., 484–486, 486n.1, 487nn.3,4, 560, 570n, 619–620
- Machen v. Johansson, 442–447, 615n
- MacMillan, Inc., Horgan v., 155
- Macmillian, Inc., Pirone v., 280n
- M.A. Holahan, Ford, Bacon & Davis, Inc. v., 503, 506
- Maier Brewing Co., Fleischman Distilling Corp. v., 132, 747, 749, 750
- Major League Baseball Players, Cardtoons v., 214
- Maljack Productions, Inc., Glovarama, Inc. v., 377–378n.2
- Malloy, In re, 510
- M.A. Mortenson Co., Inc. v. Timberline Software Corp., 766, 771n.3
- Management Agency and Music, Ltd., O'Sullivan v., 486n.1, 488n.4, 570n
- Managers, Donald E. Biederman, Agents v., 59n
- Manchester Service, Inc., Freed v., 614n
- Mandel v. Liebman, 32, 36, 37–39
- Manekas v. Allied Discount Co., 502
- Manhattan Cable Television, Inc. v. The Cable Doctor, Inc., 8n.4, 9n.21
- Manners v. Morosco, 125
- Manning v. Miller Music Company, 376–377
- Mann v. Columbia Pictures, Inc., 282, 294, 304n.1
- MAPHIA, Sega Enterprises Ltd. v., 724, 761n
- Mapleson v. Del Puente, 441–442
- Marathon Development California Inc.,

- Carma Developers (Cal.) Inc. v., 386–387, 388, 389
- Marathon Mfg. Co. v. Enerlite Products Corp., 760
- Marcan Prods. Corp., A. H. Emery Co. v., 720
- Marco Prod., Ltd. v. Pagola, 441
- Margie Ventures, Inc., Hums v., 58
- Mariah Carey, Joseph Vian v., 8n.8, 9n.26
- Maricopa County Medical Society, Arizona v., 653
- Mar Int'l Records, Inc., Editorial Musical Latino Americana, S.A. v., 697
- Mark Goodson Productions, Inc., Zink v., 461n.1
- Marquis, Roho, Inc. v., 138, 761
- Marro, Sterling Doubleday Enterprises, L. P. v., 158
- Martindell v. Lake Shore National Bank, 617
- Martin Luther King, Jr. Center for Social Change v. American Heritage Products, 214, 243
- Martino, Cottman Transmission Systems, Inc. v., 705
- Martiz, Inc. v. Cybergold, Inc., 703
- Marvel Comics Ltd. v. Defiant, 744
- Mason, Burger King v., 760
- Mason v. Lyl Productions, 95n.2
- Masson v. New Yorker Magazine, Inc., 159, **164–170**
- Matsushita Electric Corp. v. Electric Corp. v. Solar Sound Systems, Inc., 131
- Matter of. *See name of party*
- Matthews, United States v., 702
- Maurizio v. Goldsmith, 793n.2
- May v. New York Motion Picture Corp., 92, 93, 98
- MCA Records, Inc. v. Newton-John, 8n.5, 106n, **108–109**, 457n.3
- McAuliffe, Penthouse International, Ltd. v., 405
- McCall Co. v. Wright, 378
- McCauley Music v. Solomon, 16, **26–30**
- McCollum v. CBS, Inc., 427
- McConnell v. Corona City Water Co., 606
- McDonald, Gregg v., 94
- McDonald's Corp., Sid & Marty Krofft Television Productions, Inc. v., 435
- McFarland v. Miller, 243
- McGee, Cardservice Int'l, Inc. v., 740, 748
- McGee v. International Life Ins. Co., 701
- McKelvey, Bomberger v., 606
- McLaughlin, DVD Copy Control Ass'n, Inc. v., 736
- Meany v. Meany, 425
- Meckler Media Corp. v. DC Congress GmbH, 690
- Medical Laboratory Management Consultants v. ABC, Inc., 184–185n.1
- Meese v. Miller, 62
- Meinrath v. Singer Co., 104n.11
- Meliopoulos, Debs v., 761
- Melissa Manchester v. Arista Records, Inc., 82n.4
- Mellencamp v. Riva Music, Ltd., 103n.8, **373–377**, 496n
- Mellon Bank (East) PSFS, N.A. v. Farino, 697, 698
- Mellor, Pistole v. (In re Mellor), 517
- Melvin v. Reid, 188, 189, 206
- Mendes, New England Duplicating Co. v., 744
- Men's World Outlet, Inc., Allen v., 264n.1
- Mercury Record Corp., Lane v., 374
- Merrill, Lynch, Pierce, Fenner & Smith Co., French v., 520
- Merrimack Valley Nat'l Bank v. Baird, 335
- Messenger v. Gruner + Jahr, 212n.3
- Metropolitan Baltimore Football Club Ltd., Indianapolis Colts, Inc. v., 701, 748
- Metro-Goldwyn-Mayer Film Co., Welch v., 461n.4, 467n.4, 469n
- Metro-Goldwyn-Mayer, Inc., Bartsch v., 325–326, 331, 332, 334
- Metro-Goldwyn-Mayer, Inc., Smithers v., 463n
- Metro-Goldwyn-Mayer, Inc. v. Scheider, **102**, 102n.1, 103nn.2,6
- Metro-Goldwyn Pictures Corp., Sheldon v., 153
- Metromedia Broadcasting Corp. v. MGM/UA Entertainment Co., 671, **675–680**
- Metropolitan Transit Authority, New York Magazine v., 194n.8
- Meyers v. Nolan, 38
- MGM/UA Entertainment Co., Metromedia Broadcasting Corp. v., 671, **675–680**
- Michael Todd Co., Poe v., 120
- Michigan, Butler v., 422, 706n
- Michigan Stone & Supply Co. v. Harris, 617
- Microsoft Network LLC, The, Caspi v., 739, 770n.2
- Microsoft, United States v., 733, 734
- Microstar v. Formgen, Inc., 766

- Middlebrooks v. Curtis Publishing Co., 176
- Midler v. Ford Motor Company, 226, **229–231**, 231n, 233–234, 236, 239, 257
- Midway Mfg. Co. v. Arctic Int'l, Inc., 751, 764, 764n.1
- Midwest Television, Inc. v. Oloffson, 458n.4
- Milkovich v. Lorain Journal, 158
- Miller Brewing Co., Inc., Tin Pan Apple, Inc. v., 264n.2
- Miller, McFarland v., 243
- Miller, Meese v., 62
- Miller Music Company., Manning v., 376–377
- Miller Music Corp. v. Charles N. Daniels, Inc., **340–342**, 344–345, 346, 347, 350–351
- Miller v. California, 189, 405–411, 711n
- Mills, Nelson v., 377
- Milton Kauffman v. Superior Court, 478
- Mini Gift Shop, D.C. Comics, Inc. v., 758
- Minnesota, Near v., 178
- Minnesota Mining & Mfg. Co. v. Taylor, 746
- Minnear v. Tors, 312
- Mirage Editions, Inc. v. Albuquerque A. R. T. Co., 763
- Mitchell, Bindrim v., 171, **174–177**, 177n.1
- Mitsubishi Int'l Corp., Sanshoe Trading Corp. v., 372
- Mobil Oil Corp. v. Pegasus Petroleum Corp., 752–753
- Mobil Oil Corp. v. Rubenfeld, 374
- Mohrbacher, United States v., 702, 721
- Montague v. Flockton, 453
- Montana v. San Jose Mercury News, 250, **252–255**
- Montero, Smith v., 123, **128–132**, 133–135, 136, 137
- Moore, Huggins v., 179
- Moore, Sayre v., 281
- Moore v. Greene, 235
- Moral Majority, Inc., Hustler Magazine, Inc. v., 724
- Moran v. Standard Oil Co., 378
- Moreno v. Park, 53
- Morgan, Stein and Day, Incorporated v., 538, **540–541**
- Morita v. Omni Publications Int'l, Ltd., 137
- Morosco, Manners v., 125
- Mortellito v. Nina of California, Inc., 132
- Mortenson Co., Inc. v. Timberline Software Corp., 776, 771n.3
- Moskowitz, Graubard Mollen Dannett & Horowitz v., 30n.3
- Mosley, Police Department of Chicago v., 421
- Motown Record Corporation v. Brockert, **110–112**, 442
- Motown Record Corporation v. Tina Marie Brockert, 8n.5
- Motschenbacher v. R.J. Reynolds Tobacco Co., **226–228**, 228n.1, 230, 234, 239
- Moyer v. Amador Valley JUHSD, 159
- MP3.com, Inc., UMG recordings, Inc. v., 717, **717–720**, 720n, 723, 725
- MPI Home Video, Jackson v., 254
- Mueller v. Bethesda Mineral Spring Co., 617
- Murphy v. Warner Brothers Pictures, Inc., 331, 332
- Murray, Howard v., 23
- Murray Glick Datsun, Beneficial Commercial Corp. v., 377
- Murray v. NBC, Inc., 282, 294, 304n.2, **315–321**
- Musicians v. Carroll, 32
- Mutual Film Co., Stodart v., 284
- Mutual Milk & Cream Co. v. Prigge, 76–77
- Mutual of Omaha Ins. Co., Egan v., 191
- M. Witmark & Sons v. Jensen, 569
- Naataanbuu v. Abernathy, 8n.9
- Nabisco, Inc., August Storck K.G. v., 754
- Nadel v. Play-by-Play Toys, 305n.3
- Namath v. Sports Illustrated, 250, **251–252**, 255
- Napster, Inc., A & M Records, Inc. v., 690, 717, **720–736**
- Nash AMC-Jeep, Inc., Troutt v., 767
- National Broadcasting Co., Inc. *See* NBC, Inc.
- National Conference of Catholic Bishops, F.E.L. Publications, Ltd. v., 132
- National Drama Corp., Percival v., 99, 100
- National Endowment for The Arts v. Finlev, 419n.2
- National Football League v. TV RadioNow Corp., 736
- National League of Professional Baseball Club, Federal Baseball Club of Baltimore, Inc. v., 642
- National Society of Professional Engineers v. United States, 654–655

- National Video, Inc., *Allen v.*, 214, **258–264**, 275
- Nation Enterprises, Harper & Row, Publishers, Inc. v., 153, 718, 725
- Navarro, Skywalker Records Inc. v., **404–411**, 411nn.1,2,3, 584, 707n
- NBC, Inc., *Bernstein v.*, 194, **202–211**, 211n.1
- NBC, Inc., *Chaplin v.*, 214
- NBC, Inc., *DeFilippo v.*, 426
- NBC, Inc., *Murray v.*, 282, 294, 304n.2, **315–321**
- NBC, Inc., *Niemi v.*, 420
- NBC, Inc., *Olivia N. v.*, **420–424**, 427
- NBC, Inc., *Prouty v.*, 399
- NBC, Inc., *Uproar Co. v.*, 125
- NCAA v. Board of Regents of the University of Oklahoma, 570–571
- Neal v. Farmer's Ins. Exchange, 191
- Near v. Minnesota, 178
- Neeld v. American Hockey League, 786
- Nelson, *Taylor v.*, 520
- Nelson, *Warner Brothers Pictures, Inc. v.*, 442, 458n.6
- Nelson Film Partners, ITC Entertainment, Ltd. v., 8n.12, 9nn.33,34
- Nelson v. Abraham, 478
- Nelson v. Mills, 377
- Nelson v. Radio Corp. of Am., 136
- Netcom On-Line Communication Servs., Inc., *Religious Tech. Ctr. v.*, 723, 729
- Network Solutions, Inc., *Beverly v.*, 746
- New American Library, *Bobbs-Merrill Co., Inc. v.*, 396, **402–403**
- New American Library, Inc., *Lyons v.*, 172
- Newbery, *Town & Country House & Home Serv. v.*, 453–454
- Newcombe v. Adolf Coors Co., 219
- New England Duplicating Co. v. Mendes, 744
- New England Life Insurance Co., *Pavesich v.*, **182–184**, 243
- New Kids on the Block v. News America Publishing, Inc., **248–250**, 754
- Newman, *Farr v.*, 437
- Newman v. Emerson Radio Corp., 467n.4
- News America Publishing, Inc., *New Kids on the Block v.*, **248–250**, 750
- News Corp., *Cleary v.*, **113–116**, 123, 127n, **135–139**
- Newsday, Inc. v. C.L. Peck Contractor, Inc., 158
- News Group Publications, Inc., *Stephano v.*, 211n.2, 213, 237
- Newton-John, MCA Records, Inc. v., 8n.5, 106n, **108–109**, 457n.3
- New West Corp. v. NYM Company of California, Inc., 129, 130, 132, 133, 744
- New York, *Ginsberg v.*, 707, 704n, 705n
- New York, *Winters v.*, 422
- New York and Brooklyn Elevated Railroad Co., *Frances v.*, 76
- New Yorker Magazine, Inc., *Masson v.*, 159, **164–170**
- New York Magazine v. Metropolitan Transit Authority, 194n.8
- New York Motion Picture Corp., *May v.*, 92, 93, 98
- New York Times Company, Inc., *The, Tasini v.*, 538, **541–545**, 545n, 690
- New York Times v. Sullivan, 162, 167, 170, 177, 178–179, 202, 215, 256n, 421–422
- Nexus Energy Software, Inc., *Public Serv. Co. v.*, 746, 747
- NFL v. Wichita Falls Sportswear, Inc., 265n.4
- Nichols, *Richland Bookmart v.*, 413n.6
- Nichols v. Universal Pictures, **282–286**, 293
- Niemi v. NBC, Inc., 420
- Nifty Foods Corp. v. Great Atlantic & Pacific Tea Co., 376
- Nigra v. Young Broadcasting of Albany, Inc., 457n.4
- Nihon Keizai Shimbun, Inc. v. Comline Business Data, Inc., 719
- Nina of California, Inc., *Mortellito v.*, 132
- Nintendo of America, Inc., *Lewis Galoob Toys, Inc. v.*, 752, **761–764**, 764n.1
- Niton Corp. v. Radiation Monitoring Devices, Inc., 740, 753
- N.M. Ball Sons, *Lewis & Queen v.*, 46–47
- Nolan, *Meyers v.*, 38
- Nolan v. Sam Fox Publishing Company, Inc., 375, **438**, 565
- Nolan v. Williamson Music Inc., **435–438**
- Noonan, *In the matter of*, **500–505**, 506
- Noral v. Hearst Publications, 177n.2
- North American Newspaper Alliance, *Reiner v.*, 614n
- Northern Pacific R. Co. v. United States, 657, 672, 673
- Northern Songs, Ltd. v. Distinguished Productions, Inc., 514
- Nutri/System, Inc. v. Con-Stan Indus., 745, 748
- NYM Company of California, Inc., *New West Corp. v.*, 129, 130, 132, 133, 744

- Oakes, Arthur v., 110, 457
Oakland Tribune, Inc., Diaz v., **186–192**
O'Brien v. Williamson Daily News, 177n.2
O'Connell, Domeyer v., 126
Oelrichs, Seymour v., 94
Official Airline Guides, Inc. v. Goss, 742, 749, 750
Ohio, Brandenburg v., 420, 421, 422, 428
Older v. Board of Education, Matter of, 37n.2
Olivia N. v. NBC, Inc., **420–424**, 427
Oloffson, Midwest Television, Inc. v., 458n.4
Olsten Corporation, The, Capital Temporaries, Inc. of Hartford v., 327
Omega Importing Corp. v. Petri-Kine Camera Co., 751
Omni Publications Int'l, Ltd., Morita v., 137
Onassis v. Christian Dior, 193n.3, 260
125 Bar Corp. v. State Liquor Authority, Matter of, 37n.2
Opelousas General Hospital, Pitre v., 425
Oreamuno, Diamond v., 64
Oregon Public Broadcasting, German Educational Television Network, Ltd. v., 693
Original Appalachian Artworks, Inc. v. The Toy Loft, 759
Oritami Motor Hotel, Inc., Chimes v., 520
Orth-O-Vision, Inc. v. Home Box Office, Inc., 687n.1
O'Sullivan v. Management Agency and Music, Ltd., 486n, 488n.4, 570n
Otter Trail Power Co. v. United States, 656
Ozment, Adkisson v., 621
Pacifica Foundation, FCC v., 422, 423, 704n, 705n
Pacific Air Indus., Runyan v., 440
Pacific Coast Ry. Co., Rosenberger v., 94
Pacific Propeller, Inc., Danning v. (In re Holiday Airlines Corp.), 514
Pacific Telesis v. International Telesis Comms., 749, 751
Pagola, Marco Prod., Ltd. v., 441
Paladin Enterprises, Inc., Rice v., 419, 428, 430
Panavision Intern., v. L.P. Toeppen, 696n, 698, 739, 740, 743, 756, 757
Pansy Ellen Products, Thomas v., 758
Paramount, Zambito v., 282, **286–290**, 293
Paramount Pad Co. v. Baumrind, 614n
Paramount Pictures Corp., Art Buchwald v., 369, **464–479**, 479nn.1, 2, 521, 634, 635
Paramount Pictures Corp., Cohen v., 322, 332, 333, 334, 335nn.1,2
Paramount Pictures Corp., United States v., 216, 643, **643–651**, 675, 676, 683
Paramount Pictures Corp., Yakubowicz v., 426
Paramount Productions, Inc. v. Smith, 120
Park, Moreno v., 53
Parker v. Twentieth Century-Fox Film Corp., 94n.1, **390–392**, 392n, 461n.3, 633
Park v. Deftones, **52–56**
Pataki, American Library Association v., 706n.3
Pathe Exchange, Binderup v., 642–643
Pathe Studios, Inc., Payne v., 392n
Patmont Motor Works, Inc. v. Gateway Marine, Inc., 754
Patterson, CompuServe, Inc. v., 696, 699, 699n, 701, 765
Paul Armstrong Co., Kirke La Shelle Co. v., 125, 332
Paulsen v. Personality Posters, Inc., 253–255
Pavese v. New England Life Insurance Co., **182–184**, 243
Payne v. Pathe Studios, Inc., 392n
Pay TV of Greater New York, Inc., Home Box Office, Inc. v., **684–687**
Peabody v. Barham, 158
Pearson, Washington Publishing Co. v., 216
Pegasus Petroleum Corp., Mobil Oil Corp. v., 752–753
Penato v. George, 23, 374
Penguin Books USA, Inc., Dr. Seuss Enters. v., 735, 740, 752–753, 754
Penthouse International, Ltd. v. McAuliffe, 405
Penton v. Clarkson, 425
People For The Ethical Treatment of Animals v. Bobby Berosini Ltd., 185n.3
People v. Concert Connection, 694
Peppercorn Productions, Inc., Waisbren v., 52, 54–55
Peppermint Club, Inc., Broadcast Music, Inc. v., 720
Percival v. National Drama Corp., 99, 100
Perdue v. Crocker National Bank, 387, 468, 469, 471
Peregrine Entertainment, Ltd., In re, **513–518**, 518nn.1,2
Peres v. Brownell, 503

- Perez v. Campbell, 504
 Pergament Syosset Corp., Sy Jack Realty Co. v., 608
 Perlman, Catapult Entertainment, Inc. v. (In re Catapult Entertainment, Inc.), 512n.2
 Perry, Sykes v., 473
 Personality Posters, Inc., Paulsen v., 253–255
 Petch, Boardman Co. v., 95
 Peterson v. Highland Music, Inc., 435, **438–440**, 444n
 Pet, Inc. v. Lustig, 24
 Petri-Kine Camera Co., Omega Importing Corp. v., 751
 Petroff, Zorich v., 120–121
 Philadelphia Church of God, Worldwide Church of God v., 724
 Philadelphia Newspapers, Inc. v. Hepps, 180, 712
 Philco Television Broadcasting Corp., Et-tore v., 332
 Phillips H. Lord, Inc., Cole v., 319
 Phillips v. Playboy Music, Inc., **605–607**
 Phoenix Bond & Indemnity Co. v. Shamblin (In re Shamblin), 517
 Phonogram, Inc., Westbound Records v., 615–616, 613n.1, **620–622**
 Pine v. Laine, 32, **36–37**
 Pinkus v. United States, 406
 Pinnacle Books, Inc. v. Harlequin Enterprises, Ltd., 536–537, **545–548**, 548n
 Pinocchio's Pizza, Inc. v. Sandra, Inc., 745
 Piro, Tavoulares v., 180
 Pirone v. Macmillian, Inc., 280n
 Pistole v. Mellor (In re Mellor), 517
 Pitre v. Opelousas General Hospital, 425
 Pizza Hut of Louisiana, Harris v., 425
 Planned Parenthood Federation of America, Inc. v. Bucci, 746, 747
 Platinum Record Co. v. Lucasfilm, Ltd., 333, 334
 Playboy Enterprises, Inc. v. Asiafocus Int'l, Inc., 753
 Playboy Enterprises, Inc. v. Calvin Designer Label, 753
 Playboy Enterprises, Inc. v. Dumas, 539n.1
 Playboy Enterprises, Inc. v. Frena, **757–761**
 Playboy Enterprises, Inc. v. Universal Tel-A-Talk, Inc., 754
 Playboy Enterprises, Inc. v. Welles, 752n., 753–754
 Playboy Entertainment Group, United States v., 414n.9
 Playboy Music, Inc., Phillips v., **605–607**
 Play-by-Play Toys, Nadel v., 305n.3
 Playgirl, Inc., Ali v., 194n.7
 Playtime Theatre, Inc., City of Renton v., 404, 413nn. 6,7, 704n
 Podwitz, Hornstein v., 613n.2
 Poe v. Michael Todd Co., 120
 Police Department of Chicago v. Mosley, 421
 Polydoros v. Twentieth Century-Fox Film Corp., 173n
 PolyGram Records, Inc. v. Buddy Buie Productions, Inc., 369n.3, 607, 731
 Pope v. Illinois, 408
 Population Services International, Carey v., 422–423
 Poultry Producers etc. v. Barlow, 111
 Powell v. U.S. Cartridge Co., 504–505
 Poynter Products, Inc., Geisel v., 193n.6, 261, 328, 530, 542–543
 P.P.X. Enterprise, Inc. v. Catala, 614n
 PPX Enterprises, Inc. v. Audiofidelity Enterprises, Inc., 152
 Prelinger v. Columbia Pictures Corp., 395n.1
 Prentice-Hall, Inc., Zilg v., 375, 378, **379–385**, 388, 561
 Prigge, Mutual Milk & Cream Co. v., 76–77
 Prima v. Darden Restaurants, Inc., 248
 Princess Production Corp., Roulette Records v., 611, **612–613**
 Prinze v. Jonas, 73–74
 Prize Frize, Inc., In re, 512n.1
 ProCD, Inc. v. Zeidenberg, 765–766
 Prodigy Services Company, Lunney v., 713n
 Prodigy Servs. Co., Stratton Oakmont, Inc. v., 710–711, 712
 Products Int'l Co., Tefal, S.A. v., 701
 Prouty v. NBC, Inc., 399
 Prudential Ins. Co. of Am., Beckett v., 696
 Pryor v. Franklin, **48–50**, 59n
 Public Serv. Co. v. Nexus Energy Software, Inc., 746, 747
 Pump, Inc. v. Collins Managements, 266, **275–280**
 Purchasing Assoc. v. Weitz, 453–454
 Pussycat Cinema, Ltd., Dallas Cowboys Cheerleaders, Inc. v., 130, 269

- Quaid Software Ltd., Vault Corp. v., 729, 766, 766n.1, 767
- Raden v. Laurie, 46, 47
- Radiation Monitoring Devices, Inc., Niton Corp. v., 740, 753
- Radio Channel Networks, Inc. v. Broadcast.Com, Inc., 754
- Radio Corp. of Am., Nelson v., 136
- Raftery v. World Film Corp., 437
- Ralph C. Wilson Industries, Inc. v. ABC, Inc., **680–684**
- Random House, Inc., Rosemont Enterprises, Inc. v., 195
- Random House, Inc., Salinger v., 719
- Random House, Inc. v. Gold, **354–357**, 363
- Rath, Shubert Theatrical Co. v., 453
- Rath Packing Co., Jones v., 713
- Ray Repp and K & R Music, Inc. v. Andrew Lloyd Weber, The Really Useful Group, et al., 8n.7
- Reader's Digest Association, Inc., Briscoe v., 188, 189, 190
- Reading v. The King, 492
- Record Club of America v. United Artists Records, Inc., 608
- Recording Industry Ass'n of America v. Copyright Royalty Tribunal, **338–340**
- Recording Industry Ass'n of America v. Diamond Multimedia Systems, Inc., 691, 716, 727, 732
- Red Carpet Homes of Johnstown, Inc. v. Gerling (In re Knapp), 519
- Redd Horne Inc., Columbia Pictures Industries, Inc. v., 758
- Reeb, Buffalo Builders' Supply Co. v., 563
- Reed, Dockstader v., 110
- Reed, Roberts Assoc. v. Strauman, 453–454
- Reed v. Village of Shorewood, 414
- Reeves v. United Artists Corp., 244n
- Regents, Kingsley Pictures Corp. v., 422
- Reid, Community for Creative Non-Violence v., 514
- Reid, Melvin v., 188, 189, 206
- Reimerdes, Universal City Studios, Inc. v., 736
- Reiner v. North American Newspaper Alliance, 614n
- Religious Tech. Ctr. v. Lerma, 727
- Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc., 723, 729
- Reno, Shea v., 694, 695
- Reno v. American Civil Liberties Union, 698, 707, 707n, 710, 717, 740
- Renton, City of v. Playtime Theatre, Inc., 404, 413nn.,6,7, 704n
- Republic Productions, Austry v., 396n.1
- Republic Productions, Elliott-McGowan Productions v., 565n.1
- Re. *See name of party*
- Reuters Television Int'l Ltd., Los Angeles News Serv. v., 718
- Reynolds, Canfield v., 26
- Reynoso, Frostifresh Corporation v., 479–480
- Rey v. Lafferty, 323, **329–335**, 335nn.1,2
- R. H. Macy & Co., Inc., Jaccard v., 142
- Rhodes, Allied Artists Picture Corp. v., 652
- Rice v. Paladin Enterprises, Inc., 419, 428, 430
- Richard Feiner & Co., Inc. v. H.R. Indus., Inc., 720
- Richard Leon James, Elton Hercules John v., **489–496**, 496n, 570n
- Richardson, Brian v., 159
- Richland Bookmart v. Nichols, 413n.6
- Riddle, Bruce v., 708
- Riggins, Town & Country Properties, Inc. v., 194n.9
- Rinaldi v. Holt, Rinehart & Winston, Inc., 158
- Rinaldi v. Viking Penguin, Inc., 158, 179
- Ripa v. Cathy Parker Management, Inc., 521
- Riva Music, Ltd., Mellencamp v., 103n.8, **373–377**, 496n
- R.J. Reynolds Tobacco Co., Motschenbacher v., **226–228**, 228n.1, 230, 234, 239
- RKO General, Inc., Waverly Productions, Inc. v., 377n.1, 478, 479
- RKO General, Inc., Weirum v., 423, 426
- RMC International, Ltd., Sengoku Works, Ltd. v., 741
- Roach, Chandler v., 312
- Roberson v. Rochester Folding Box Co., 182, 191
- Robers v. Atlantic Recording Corporation, 521
- Robert Welch, Inc., Gertz v., 162–163, 179, 191, 423
- Robinson v. Fair Employment & Housing Com., 53
- Robinson v. Viacom International, 304–305n.2
- Rochelle, Segal v., 510, 511

- Rochester Folding Box Co., *Roberson v.*, 182, 191
- Rock Against Racism, *Ward v.*, 419n.1
- Rock Tours, Ltd. v. Kiss (a partnership) and Kiss Organization, Ltd., 104n.10
- Rodeo Collection Ltd. v. West Seventh, 746
- Rodgers v. Roulette Records, Inc., 369–372
- Rogers v. Grimaldi, 266–274
- Rohauer v. Killiam Shows, Inc., 343, 344, 345, 347, 348, 349
- Roho, Inc. v. Marquis, 138, 761
- Rooney v. Columbia Pictures Industries, Inc., 332, 334
- Roosmoor, Gough v., 686
- Rosa Parks v. LaFace Records, 274n
- Rosemont Enterprises, Inc. v. Random House, Inc., 195
- Rosenberger v. Pacific Coast Ry. Co., 94
- Rosenfeld, Gennaro v., 772, 785–786, 786–787
- Rosenfeld v. W. B. Saunders, 137, 139
- Rosenwasser v. Blyn Shoes, Inc., 563
- Rostropovich v. Koch International Corp., 143
- Rothberg, Barr v., 50–52
- Roth v. United States, 405, 407
- Roulette Records, Inc., *Rodgers v.*, 369–372
- Roulette Records, Inc. v. Princess Production Corp., 611, 612–613
- Rowe v. Great Atlantic & Pacific Tea Co., 375
- Rubinfeld, Mobil Oil Corp. v., 374
- Rubin, Sacks v., 779, 799–801
- Rudzewicz, Burger King Corp. v., 695, 698, 699, 701
- Ruffin-Steinback v. DePasse, 178
- Runyan v. Pacific Air Indus., 440
- Rural Telephone Company Service, Feist Publications, Inc. v., 766n.2
- Russen, Estate of Elvis Presley v., 265n.3
- Sabo v. Delman, 371
- Sackett v. Spindler, 606
- Sacks v. Rubin, 779, 799–801
- St. Amant v. Thomas, 179
- St. Martin's Press, State of Israel v., 178
- Salinger v. Random House, Inc., 719
- Sam Fox Publishing Company, Inc., Nolan v., 375, 438, 565
- Samsung Electronics America, White v., 226, 237–243, 243n.1
- Sand Creek Partners, L.P., Time, Inc. v., 8nn.3,15
- Sanders, Tamarind Lithography Workshop, Inc. v., 112, 117–121
- Sanders v. ABC, Inc., 184–185n.1
- Sandra, Inc., Pinocchio's Pizza, Inc. v., 745
- San Jose Mercury News, Montana v., 250, 252–255
- Sanshoe Trading Corp. v. Mitsubishi Int'l Corp., 372
- SAPC, Inc. v. Lotus Development Corp., 331
- Sardie, Sardi's Restaurant Corp. v., 740
- Sardi's Restaurant Corp. v. Sardie, 740
- Sawyer v. Sickinger, 103n.3
- Sayre v. Moore, 281
- Schatzkin, Joseph v., 75–76
- Scheck v. Francis, 103n.4
- Scheider, Metro-Goldwyn-Mayer, Inc. v., 102, 102n.1, 103nn.2,6
- Schenck v. United States, 404, 428
- Schisgall v. Fairchild Publications, 375–377
- Schlack, Earthweb, Inc. v., 457n.4
- Schmann v. Karrer, 610
- Schoonover, Lustig v., 71
- Scissor-Tail, Inc., Graham v., 465, 466, 467, 468, 475, 524–525
- S.C. Johnson & Son, Inc., Hirsch v., 228n.1
- Scott Eden Management v. Andrew Kavovit, 74–78
- Scripps-Howard Broadcasting Co., Zaccchini v., 214–219, 234, 244n, 248
- Seager, Washer v., 461
- Sears, Roebuck & Co., Lippman v., 387
- Sears, Roebuck & Co. v. Stiffel Co., 233–234
- Sega Enterprises Ltd. v. Accolade, Inc., 764
- Sega Enterprises Ltd. v. MAPHIA, 724, 761n
- Segal v. Rochelle, 510, 511
- Seinfeld, Costanza v., 182
- Self-Realization Fellowship Church v. Anda Church of Self-Realization, 749
- Sellers v. ABC, Inc., 89n.3
- Sengoku Works, Ltd. v. RMC International, Ltd., 741
- Septentertide Publishing v. B.V. Stein and Day, Inc., 519n.3
- Seroff v. Simon and Schuster, Inc., 400n
- Sew/Fit Company, Inc., Ekern v., 377
- Seymour v. Oelrichs, 94

- Shakur, Agnant v., 178
- Shamblin, In re (Phoenix Bond & Indemnity Co. v. Shamblin), 517
- Shamblin (In re Shamblin), Phoenix Bond & Indemnity Co. v., 517
- Shannon, Walt Disney Productions, Inc. v., 426
- Shapiro, Filner v., 375
- Shaw-Ross Int'l Imports, Inc., E. Remy Martin & Co. v., 747, 748
- Shaw v. Lindheim, 137, 138
- Shea v. Reno, 694, 695
- Sheldon v. Metro-Goldwyn Pictures Corp., 153
- Sherman, In re, 517, 519n.4
- Shields v. Gross, 71, 193n.5
- Shinohara Shoji Kabushiki Kaisha, Fuji Photo Film Co. v., 748
- Shoreham Hotel, Elmhurst v., 208
- Shostakovich v. Twentieth Century-Fox Film Corp., 123, **140–142**
- Showtime/The Movie Channel v. Covered Bridge Condominium Assoc, Inc., 760
- Shubert Theatrical Co. v. Gallagher, 453
- Shubert Theatrical Co. v. Rath, 453
- Shubert, United States v., 777
- Shulman v. Group W. Productions, 184n.1
- Sickinger, Sawyer v., 103n.3
- Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp., 435
- Sidis v. F.R. Pub. Corp., 194, 206
- Sillman v. Twentieth Century-Fox Film Corp., 8n.10, 9nn.25,30
- Silverman case, 269
- Simitar Entertainment, Inc., Cherry River Music Co. v., 601–602
- Simmons Int'l, Ltd., Soper v., 371–372
- Simon, Warner Brothers Pictures, Inc. v., 614n
- Simon and Schuster, Inc., Seroff v., 400n
- Simons v. Young, 608
- Sinatra v. Goodyear Tire & Rubber Co., 228
- Singer Co., Meinrath v., 104n.11
- Sipple v. Foundation for National Progress, 179n.2
- SKG Studio, Dreamwerks Prod. Group v., 745, 747, 750
- Skywalker Records Inc. v. Navarro, **404–411**, 411nn.1,2,3, 584, 711n
- Slade's Case, 480
- Slaughter v. Jefferson Federal Savings and Loan Association, 475
- Sleekcraft Boats, AMF Inc. v., 740, 745, 747, 749, 750
- Smith, Daly v., 441
- Smith, Paramount Productions, Inc. v., 120
- Smithers v. Metro-Goldwyn-Mayer, 468n
- Smith v. California, 217
- Smith v. Chanel, Inc., 754
- Smith v. Montero, 123, **128–132**, 133–135, 136, 137
- Smith v. United States, 408
- SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms, Inc., 734
- Snipes v. Dolores Robinson Entertainment, 52n
- Sobol v. E.P. Dutton, Inc., 377
- Societa Di Unione, etc., Howard v., 483
- Software Link, The, Arizona Retail Sys, Inc. v., 767
- Solomon, McCauley Music v., 16, **26–30**
- Sony Computer Entertainment v. Connectix Corporation, 764n.2
- Sony Corp. of America v. Universal City Studios, Inc., 334, 716, 718, 727, 728, 729, 734
- Sony Corporation, Cerasani v., 178
- Sony Music Entertainment (U.K.) Limited, Georgios Panayiotou v., **496–499**
- Soper v. Simmons Int'l, Ltd., 371–372
- Soundgarden v. Eikenberry, 404, 411n.4, 584
- Southeast Bank, N.A. v. Lawrence, 247
- Southeastern Promotions Ltd. v. Conrad, 415
- Spahn v. Julian Messner, Inc., 186, **192–193**
- Sparkle Toys, Inc., Hasbro Bradley, Inc. v., 718
- Spelling-Goldberg Productions, Guglielmi v., 217, 244, 255
- Spindler, Sackett v., 606
- Spinello v. Amblin Entertainment, 521
- Splawn v. California, 406
- Spokane Arcades, Inc., Brockett v., 405
- Sports Form, Inc. v. United Press Int'l Inc., 729
- Sports Illustrated, Namath v., 250, **251–252**, 255
- Springer v. Viking Press, **171–173**
- Standard Oil Co., Moran v., 378
- Standard Oil Co. v. United States, 672
- Standard and Poor's case, 261–262
- Stanglin, City of Dallas v., 404, 413n.8
- Stanley v. CBS, Inc., 281, 297
- Star Co., Fisher v., 127
- State of Israel v. St. Martin's Press, 178

- State Liquor Authority, Matter of, 125 Bar Corp. v., 37n.2
- Steelduct Co. v. Henger-Seltzer Co., 606
- Steer Inn Systems, Inc. v. Laughner's Drive-In, Inc., 744
- Stein and Day, Incorporated v. Morgan, 538, **540-541**
- Stenacher, Clark Paper & Mfg. Co. v., 454
- Stephano v. News Group Publications, Inc., 211n.2, 213, 237
- Step-Saver Sys. v. Wyse Tech and The Software Link, 767
- Sterling Doubleday Enterprises, L. P. v. Marro, 158
- Sterndent Corp., Ferber v., 319
- Stevens, Styne v., 56n
- Stewart v. Abend, **342-351**, 351n, 735
- Stiffel Co., Sears Roebuck & Co. v., 233-234
- Stigwood Group, Ltd., Gold Leaf Group, Ltd. v., 112, **116-117**
- Stodart v. Mutual Film Co., 284
- Storper, Deucht v., 88
- Stratton Oakmont, Inc. v. Prodigy Servs. Co., 710-711, 712
- Strauman, Reed, Roberts Assoc. v., 453-454
- Strauss, Continental Nat. Bk. v., 75-76
- Strauss, Goldfarb v., 614n
- Streetwise Maps, Inc. v. Vandam, Inc., 744
- Stuart v. Collins, 622n.1
- Studds, Lister & Co. v., 492
- Styne v. Stevens, 56n
- Sullivan, New York Times v., 162, 167, 170, 177, 178-179, 202, 215, 256n, 421-422
- Sullivan v. Ed Sullivan Radio & T.V., 266n.7
- Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys., Inc., 137
- Summit Motor Prods., Inc., Ford Motor Co. v., 751
- Sumpton, Avery Dennison Corporation v., 756-757
- Superior Court, Asahi Metal Indus. Co. v., 695
- Superior Court of California, Kulko v., 698, 701
- Superior Court of the City and County of San Francisco, Bill v., 426, 427
- Superior Court, City of Glendale v., 387
- Superior Court, Dean Witter Reynolds, Inc. v., 467, 468
- Superior Court, Eastwood v., 186, 238-239, 241, 250, 253, 255n
- Superior Court, Milton Kauffman v., 478
- Superior Court of San Francisco, Buchwald v., **45-48**, 55
- SURG-O-FLEX of America, Inc., FRA S.p.A. v., 131
- Sy Jack Realty Co. v. Pergament Syosset Corp., 608
- Sykes v. Perry, 473
- Sylvania Industrial Corp. v. Lilienfeld's Estate, 436
- Tacket v. General Motors Corp., 711-712
- Taco Bell Corp., Wrench, LLC v., 767
- Taco Cabana Inc., Two Pesos Inc. v., 265n.6
- Tamarind Lithography Workshop, Inc. v. Sanders, 112, **117-121**
- Tanner, Lloyd Corp. v., 268-269
- Tasini v. The New York Times Company, Inc., 538, **541-545**, 545n, 690
- Tatum, Volkswagenwerk Aktiengesellschaft v., 760
- Taurus Int'l Inc. v. Tital Wheel Int'l Inc., 695
- Tavoulares v. Piro, 180
- Taylor, Childress v., 785, **787-792**, 793n.1
- Taylor, In the Matter of, 505n
- Taylor, Minnesota Mining & Mfg. Co. v., 746
- Taylor v. Nelson, 520
- T. Eaton Co., Vanity Fair Mills, Inc. v., 693
- Tedesco, Ballas v., 770
- Tefal, S.A. v. Products Int'l Co., 701
- Tele-Pac, Inc. v. Grainger, 333-335, 335n.2
- Texaso, Inc., American Geophysical Union v., 718, 719, 724
- Texas Beef Group v. Winfrey, 177n.3
- Texas Motor Exchange of Houston, Inc., Exxon Corp. v., 759
- Third Story Music, Inc. v. Waits, **386-389**, 561
- Thomas, St. Amant v., 179
- Thomas Nelson, Inc., Harper House, Inc. v., 138
- Thomas, United States v., 706n.4
- Thomas v. Pansy Ellen Products, 758
- Thompson v. California Brewing Co., 314n
- Thompson v. Liquichimica of America, Inc., 548n
- Thomson v. Larson, 793n.1

- Thornhill v. Alabama, 421
- Thunder Craft Boats, Inc., Bonito Boats, Inc. v., 233–234, 515
- Ticketmaster Corp. v. Tickets.com, Inc., 707
- Tickets.com, Inc., Ticketmaster Corp. v., 707
- Timberline Software Corp., M.A. Mortenson Co., Inc. v., 771n.3
- Time, Inc., Virgil v., 188, 191
- Time, Inc. v. Hill, 199, 215, 216, 229, 421
- Time, Inc. v. Sand Creek Partners, L.P., 8nn.3,15
- Times-Picayune Pub. Co. v. United States, 672, 678
- Time Warner, Inc., Chambers v., 690
- Time Warner, Inc., Davidson v., 419
- Timken Roller Bearing Co. v. United States, 655
- Tina Marie Brockert, Motown Record Corporation v., 8n.5
- Tin Pan Apple, Inc. v. Miller Brewing Co., Inc., 264n.2
- Tital Wheel Int'l Inc., Taurus Int'l Inc. v., 695
- Tobin, Chinn v., 56–59
- Toepen, Panavision Intern., L.P. v., 696n, 698, 739, 740, 743, 756, 757
- Toney v. WCCO Television, 170n
- Topps Chewing Gum, Haelan Laboratories, Inc. v., 213–214, 252
- Tors, Minniear v., 312
- Town & Country House & Home Serv. v. Newbery, 453–454
- Town & Country Properties, Inc. v. Riggs, 194n.9
- Toy Loft, The, Original Appalachian Artworks, Inc. v., 759
- Toys “R” Us, Inc. v. Feinberg, 747
- Transcontinental & Western Air, Vichnes v., 76
- Treasure Chest Casino v. L.L.C. Parish of Jefferson, 425
- Tribune Entertainment Co., Howell v., 212n.5
- Trinity Theatre, Inc., Erickson v., 785–786, 793n.1
- Tri-Valley Growers, Dryden v., 614n
- Troutt v. Nash AMC-Jeep, Inc., 767
- Trucco, Augustine v., 614n
- Truck Equipment Service Co. v. Fruehauf Corp., 131
- Turner Entertainment Co. v. Huston, 403n
- Turner v. American Metal Co., 64
- TV RadioNow Corp., National Football League v., 736
- Twentieth Century Cigarette Vendors Corp., KMLA Broadcasting Corp. v., 684, 685
- Twentieth Century-Fox Film Corp., London v., 323–328, 329n
- Twentieth Century-Fox Film Corp., Parker v., 94n.1, 390–392, 392n, 461n.3, 633
- Twentieth Century-Fox Film Corp., Polydoros v., 173n
- Twentieth Century-Fox Film Corp., Shostakovich v., 123, 140–142
- Twentieth Century-Fox Film Corp., Sillman v., 8n.10, 9nn.25,30
- Two Pesos Inc. v. Taco Cabana Inc., 265n.6
- U-Haul Int'l, Inc. v. Jartran, Inc., 134
- UMG recordings, Inc. v. MP3.com, Inc., 717, 717–720, 720n, 723, 725
- Union Sugar Co., California Lettuce Growers v., 388
- United Artists Communications, Inc., Halicki v., 134, 230
- United Artists Corp., Reeves v., 244n
- United Artists Records, Inc., Record Club of America v., 608
- United Artists Television, Inc., Goodis v., 326, 329n
- United Feature Syndicate, Inc., Courier Times, Inc. v., 683
- United Press Int'l, Inc., Sports Form, Inc. v. 729
- United States. *See opposing party*
- Universal, Lukas aka Susan St. James v., 82n.2
- Universal City Studios, Inc., Hoehling v., 147
- Universal City Studios, Inc., Sony Corp. of America v., 334, 716, 718, 727, 728, 729, 734
- Universal City Studios, Inc. v. Film Ventures International, Inc., 282, 290–294
- Universal City Studios, Inc. v. Reimerdes, 736
- Universal Pictures, Lugosi v., 217, 244, 253
- Universal Pictures, Nichols v., 282–286, 293
- Universal Tel-A-Talk, Inc., Playboy Enterprises, Inc. v., 754
- Uproar Co. v. NBC, Inc., 125
- Urania Records, Inc., Gieseeking v., 146

- U.S. Cartridge Co., *Powell v.*, 504–505
 U.S. Naval Institute v. Charter Communications, Inc., 335
- Vandam, Inc., *Streetwise Maps, Inc. v.*, 744
- Van Dyne-Crotty, Inc. v. Wear-Guard Corp., 741, 742
- Vanguard Recording Society, Inc. v. Kweskin, 442, **447–450**, 619n
- Vanity Fair Mills, Inc. v. T. Eaton Co., 693
- Van Money Pie, Inc., *Hotmail Corp. v.*, 765
- Van Valkenburgh, Nooger & Neville, Inc. v. Hayden Publishing Co., 369, 372, 374, 377, 378
- Vargas v. Esquire, Inc., 115, **123–127**, 136, 137
- Various Articles of Obscene Merchandise, *United States v.*, 405
- Vault Corp. v. Quaid Software Ltd., 729, 766, 766n.1, 767
- Viacom International, Inc., *Robinson v.*, 304–305n.2
- Viacom International, Inc. v. Lorimar Productions, Inc., 671, 680n
- Vichnes v. Transcontinental & Western Air, 76
- Victor CNC Sys., Inc., *Summit Mach. Tool Mfg. Corp. v.*, 137
- Viking Penguin, Inc., *Rinaldi v.*, 158, 179
- Viking Press, *Springer v.*, **171–173**
- Village of Shorewood, *Reed v.*, 414
- Virgil v. Time, Inc., 188, 191
- Volkswagenwerk Aktiengesellschaft v. Tatum, 760
- VTR Incorporated v. Goodyear Tire & Rubber Co., 387
- Wachs v. Curry, 52, 54
- Wagner, *Lumley v.*, 111, 441, 457
- Waisbren v. Peppercorn Productions, Inc., 52, 54–55
- Waits, *Third Story Music, Inc. v.*, **386–389**, 561
- Waits v. Frito-Lay, 226, **231–237**
- Waldbaum case, 677
- Waldschmidt v. CBS, Inc., **508–512**
- Walt Disney Co., *Boosey & Hawkes Music Publishers, Ltd. v.*, 336n.3
- Walt Disney Co., *Bourne Co. v.*, 332, 335n.2
- Walt Disney Productions, Inc. v. Kusan, Inc., 744
- Walt Disney Productions, Inc. v. Shannon, 426
- Ward v. Rock Against Racism, 419n.1
- Warfield v. Jerry Vogel Music Co., Inc., 375
- Warner Brothers Inc., *Batfilm Productions v.*, 469, **479–484**, 635
- Warner Brothers Pictures, Inc., *De Haviland v.*, 69, **79–83**, 81n.1, 85, 111, 632
- Warner Brothers Pictures, Inc., *Levey v.*, 176
- Warner Brothers Pictures, Inc., *Murphy v.*, 331, 332
- Warner Brothers Pictures, Inc. v. Brodel, 72, 458n.6
- Warner Brothers Pictures, Inc. v. Bumgarner, **95–100**, 100nn.1,2,4
- Warner Brothers Pictures, Inc. v. CBS, Inc., 544n.1
- Warner Brothers Pictures, Inc. v. Nelson, 442, 458n.6
- Warner Brothers Pictures, Inc. v. Simon, 614n
- Warner Brothers Records, Inc., *Grand Upright Music, Ltd. v.*, 550, **578–579**, 584
- Warner Communications, Inc., *Beverly Glen Music, Inc. v.*, 458n.5
- Warner-Lambert Pharmaceutical Company, Inc. v. John J. Reynolds, Inc., 88
- Washer v. Bank of America, 158
- Washer v. Seager, 461
- Washington, *International Shoe Co. v.*, 695, 698, 701
- Washington Publishing Co. v. Pearson, 216
- Washington Speakers Bureau, Inc. v. Leading Authorities, Inc., 740, 749
- Washington Square Press, Inc., *Freund v.*, **458–461**
- Wasserman v. Leigh, 785–786, **793–799**
- Waterson, *Berlin & Snyder Co., In re (1929)*, 436–437, **561–565**
- Waterson, *Berlin & Snyder Co. v. Irving Trust Co., In re (1931)*, 376, 436–437, **561–565**, 607
- Watson, *Fugua v.*, 623n.4
- Watson Pharms, Inc., *SmithKline Beecham Consumer Healthcare, L.P.*, 734
- Waverly Productions, Inc. v. RKO General, Inc., 377n.1, 478, 479
- Way v. Boy Scouts of America, 426
- W. B. Saunders, *Rosenfeld v.*, 137, 139
- WCCO Television, *Toney v.*, 170n

- WEA Records Ltd., Clifford Davis Mgt. Ltd. v., 619–620
- Wear-Guard Corp., Van Dyne-Crotty, Inc. v., 741, 742
- Webb, Hexamer v., 86
- Webster v. Dillon, 445
- Wedbush, Noble, Cooke, Inc., Cohen v., 520
- Weiner King, Inc. v. Wiener King Corp., 745
- Weirum v. RKO General, Inc., 423, 426
- Weisman, Bower v., 371
- Weissler, Belin v., 772n.1, 778
- Weitz, Purchasing Assoc. v., 453–454
- Weitzenkorn v. Lesser, 304n.1
- Welch v. Metro-Goldwyn-Mayer Film Co., 461n.4, 467n.4, 469n
- Welles, Playboy Enterprises, Inc. v., 752n., 753–754
- Wells v. League of American Theatres and Producers, Inc., Matter of, 777n.2
- Wendt v. Host International, 243n.2
- We're Only In It For the Music v. Elektra Entertainment, 83n.6
- Westbound Records, Bonner v., 611–612, **616–620**, 620–621
- Westbound Records v. Phonogram, Inc., 615–616, 613n.1, **620–622**
- West Coast Entertainment Corp., Brookfield Communications, Inc. v., 691, 722, **737–755**, 757
- West Seventh, Rodeo Collection Ltd. v., 746
- Whedon, Dell Publishing Co. v., 368n.1
- Wheeler v. Dell Publishing, Co., 175–176
- White Motor Co. v. United States, 655
- White v. Samsung Electronics America, 226, **237–243**, 243n.1
- Whitney v. California, 422
- Whitwood Chem. Co. v. Hardman, 110
- Wichita Falls Sportswear, Inc., NFL v., 265n.4
- Wiener King Corp., Weiner King, Inc. v., 745
- Wiersma, Aronson v., 158
- Wilder, Desny v., 282, **294–304**, 304n.1, 312, 313n, 638
- Wilhelmina Models, Inc. v. Abdulmajid, 442
- William Martin Joel a/k/a Billy Joel and Electric Company Productions, Inc. v. Francis X. Weber a/k/a Frank Weber, et al., 8n.14, 9n.34
- William Morrow & Co. v. Davis, 368n.2
- William Morrow, Kelley v., 336n.4
- Williams, Ackee Music, Inc. v., 758
- Williams, Foxx v., 82n.3
- Williamson Daily News, O'Brien v., 177n.2
- Williamson Music Inc., Nolan v., **435–438**
- Williams v. Leon T. Shettler Co., 72
- Wilson, Joseph Burstyn, Inc. v., 255, 415, 421, 427
- Wilson v. Layne, 185n.2
- Wiltschek, Franke v., 63
- Wind Power Systems, Inc. v. Cannon Financial Group, Inc. (In re Wind Power Systems, Inc.), 516
- Winfrey, Texas Beef Group v., 177n.3
- Winters v. New York, 422
- Wisconsin, Kois v., 409
- Wise Shoe Stores, Inc., Darienzo v., 695
- Witmark & Sons, Fisher Co. v., 341
- Wojtowicz v. Delacorte Press, 212n.4
- Wolf, ABC, Inc. v., 82n.2, 103n.6, 442, **450–457**, 457nn.1,2, 503
- Wood Dolson Co., Israel v., 613n.2, 614n
- Wooden Nickel Records, Inc. v. A & M Records, Inc., 614n
- Woodson, World-Wide Volkswagen Corp. v., 695, 700–701
- Wood v. Lucy, Lady Duff-Gordon, 38, 87, 376, **378–379**, 385n, 388, 617–618
- Workman Service Co., Bollatin v., 47
- World Auxiliary Power, In re, 518n.1
- World Film Corp., Raftery v., 437
- Worldwide Church of God v. Philadelphia Church of God, 724
- World-Wide Volkswagen Corp. v. Woodson, 695, 700–701
- Worthington Pump & Machinery Corp. v. Douds, 446
- Wrench, LLC v. Taco Bell Corp., 767
- Wright, McCall Co. v., 378
- Writers Guild of America, West, Inc., Ferguson v., 112, 121n
- Writers Guild of America, West, Inc. v. FCC, 421
- Wyse Tech and The Software Link, Step-Saver Sys. v., 767
- X Management, Inc., Arsenio Hall v., 52
- Yakubowicz v. Paramount Pictures Corporation, 426
- York v. Georgia-Pacific Corp., 473
- Young, Simons v., 608
- Young Broadcasting of Albany, Inc., Nigra v., 457n.4

- Young v. American Mini Theatres, Inc.,
413n.6, 421, 708n
- Young v. Bank of America, 235
- Zacchini v. Scripps-Howard Broadcasting
Co., **214–219**, 234, 244n, 248
- Zambito v. Paramount, 282, **286–290**, 293
- Zamora v. CBS, Inc., 423, 427
- Zang Tumb Tumb Records Ltd., et al. v.
Holly Johnson, 487n.2, 488nn.3,6,7,8,
609
- Zazu Designs v. L’Oreal, S.A., 743
- Zeidenberg, ProCD, Inc. v., 765–766
- Zeran v. America Online, Inc., 691, **708–
713**
- Zilg v. Prentice-Hall, Inc., 375, 378, **379–
385**, 388, 561
- Zink Communication v. Elliott, 457n.2,
461n.1
- Zink v. Mark Goodson Productions, Inc.,
461n.1
- Zippo Dot Com, Inc., Zippo Manufactur-
ing Co. v., 690, **696–702**
- Zippo Manufacturing Co. v. Zippo Dot
Com, Inc., 690, **696–702**
- Ziv Television Programs, Inc., Donahue
v., 312
- Zolt, Bingham v., 64–65n
- Zorich v. Petroff, 120–121

INDEX

- Account and pay, obligation to, 560,
565nn.2,3
case examples, 561–565, 565nn.1,2
- Acquisition of rights, negotiated, 68, 322–
351. *See also* Copyright; Publicity,
right of; Talent contracts
film industry and, 628–635
music publishing and, 69
- Actor's Equity Association, 31–32, 521,
778–779
- Administrative Procedure Act, 669
- Agents, 13–14, 31–65. *See also* Personal
managers
California Labor Commission and, 15,
37n.2, 40, 41, 42–43, 44–46, 47, 53,
54, 56n, 59n
California Talent Agency Act, 39–59,
52n, 59n
case examples, 31, 32, 37n.2, 45–59,
48nn.1,2, 52n, 56n
fees of, 15, 33, 34, 40, 44
licensing of, 32, 33–34, 40–41, 52n, 54,
56, 59n
literary agents, 14, 533, 536
vs. personal managers, 14, 32, 54, 56,
56n, 57
regulation by states, 15, 32–36,
37nn.1,2, 39–59, 52n, 59n
regulation by unions, 31–32
- American Arbitration Association, 45, 520–
521
- American Bar Association Model Rules of
Professional Conduct, 16, 17, 18, 19
- American Federation of Musicians
(AFofM), 603
- American Federation of Television and
Radio Artists (AFTRA), 521, 603
- American Law Institute (ALI), 769n.8
- American Society of Composers, Authors,
and Publishers. *See* ASCAP
- Anticybersquatting Consumer Protection
Act, 756
- Antitrust issues
case examples, 643–656, 671–687
in film industry, 642–656, 671
Sherman Antitrust Act, 643–656, 671–
687
in television industry, 643–684
in the theatre, 777, 778n.1
- Arbitration, 519–521
Beatty arbitration, 390, 392, 394–395,
633
Cimino arbitration, 390, 392–394, 633
- ASCAP, 550, 553, 558
cases involving, 565–575, 576nn.2,3,4,
577, 577n.5
- Asia, 1, 4, 5
- Association of Motion Picture and Televi-
sion Producers, 632
- Astaire Celebrity Image Protection Act,
244–247, 247n.1
- Attachment, 5, 7–8
- Attorneys, 13, 14, 15–30, 67
business deals with clients, 16, 18–19
case examples, 15, 16, 19–30,
30nn.1,2,3, 31nn.4,5, 59n, 64n

- ethical considerations, 16–30,
 - 30nn.1,2,3, 31nn.4,5
- fees of, 16–17
- fiduciary duties of, 16, 19–26, 64n
- multiple client representation by, 16, 17–18
- in music publishing industry, 14–16
- negligence of, 26–29
- in recording industry, 14–16
- Audiocassettes, 531, 532, 587, 590–600, 601
- Audio Home Recording Act of 1992, 550, 691, 715, 717
- Authors Guild, 532–533, 536
- Bankruptcy
 - case examples, 499–507, 507n, 508–518, 512nn.1,2, 518nn.1,2, 519nn.3,4, 561–565, 565n.1
 - Chapter 7, 500–505
 - Chapter 11, 500–505, 505n
 - contracts and, 500–507, 507n, 507–512, 507nn.2,3, 512nn.1,2, 519n.3
 - copyright and, 507–518, 507nn.1,2
 - ipso facto* provisions, 507n.2
 - UCC-1 financing statements and, 513–518, 518nn.1,2
- BMI, 550, 553, 558, 565–576, 576n.3
- Book publishing. *See* Literary publishing
- Broadcast Music, Inc. *See* BMI
- Business managers, 13
 - case examples, 14, 59–65, 64n
 - fiduciary duties of, 59–65
- Cable Act of 1984, 670, 671
- Cable Act of 1992, 660
- Cable Communications Act, 6
- California, 7, 8
 - defamation in, 158
 - entertainment contracts in, 70–71, 614n
 - idea submission in, 282, 293–304, 304n.1, 305
 - injunction statutes in, 6, 9n.18, 104–108
 - provisions on minors, 72, 441
 - regulation of agents in, 32, 37n.2, 39–59
- California Administrative Code, 71
- California Artists' Managers Act, case example, 45–48
- California Business and Professions Code, 17, 127n, 457n.3, 714, 756, 761n
- California Civil Code
 - case examples, 108–112, 117–121, 229–243, 243n.2, 248–250, 252–255, 255n, 294–304, 304n.1, 305–313, 438–440, 457n.3, 464–483
 - contracts and, 59, 71, 72, 79–81, 102n.2, 104–108, 120–121, 294–304, 392n, 438–440, 464–483
 - defamation and, 158, 166, 170, 235
 - detailed excerpts from, 105–106, 119, 218–219, 244–247
 - idea submission and, 294–304, 304n.1
 - injunctions and, 104–108
 - right of privacy and, 185n.5
 - right of publicity and, 217–219, 229–243, 243n.2, 244–247, 247nn.1,2, 248–250, 252–255, 255n
 - unfair competition and, 688
- California Code of Civil Procedure,
 - 9nn.17,23,32, 78, 105–106, 109, 121n, 179n.2, 296, 481, 517, 520
- agents and, 45, 47
- California Consumer's Legal Remedy Act, 465–479
- California Entertainment Commission, 54, 55–56
- California Family Code, 72
- California General Regulations, 584
- California Labor Code
 - case examples, 45–59, 79–81, 81n.1, 82nn.2,3,4, 83nn.5,6, 83–88, 90–100, 94n.1, 95nn.2,3, 100nn.1,2,4
 - contract termination and, 90–100, 100n.3
 - detailed excerpts from, 39–45, 78–79, 90, 95n.3, 98
 - seven-year statute, 78–86, 81n.1, 82nn.2,3,4, 83nn.5,6,7, 87–88, 109
- California Labor Commission and agents, 15, 37n.2, 40, 41, 42–43, 44–46, 47, 53, 54, 56n, 59n
- California Penal Code, 714
- California Private Employment Agencies Act, 47
- California Rules of Professional Conduct, 16, 17, 18
- California Talent Agency Act, 39–45, 52n, 59n
 - case examples, 45–59
- California Uniform Electronic Transactions Act, 768
- Canada, 4
- CD-ROMs, 549, 581
- CDs, 549, 552, 581, 582, 584, 585, 601
 - in royalty calculations, 587, 590–600
- Censorship, 395
 - case examples, 404–411, 411nn.1,2, 413nn.6,7,8, 414n.9, 414–419, 419n.1, 419–430

- First Amendment and, 404–411, 413n.6, 414–419, 419–430, 702–703, 703n, 712–713
- in online context, 414n.9, 691
- regulation of attendance and, 413nn.5,7,8, 414–419
- regulation of content and, 404–411, 419–430, 419n.1
- Child Online Protection Act (COPA), 703
- Common law
- credit and, 122–140
 - property rights under, 299
 - right of privacy and, 180–184, 191–192, 208–211, 211n.2, 212n.4, 255n, 280n
 - right of privacy/publicity absent in New York, 182, 191–192, 211n.2, 212, 237n, 243, 247n.2, 275n.2, 280n
 - right of publicity and, 181, 195, 198–199, 212, 213–217, 219n, 226–244, 247n.2, 252–255, 255n
- Communications Act of 1934, 669, 684, 685, 686
- Communications Decency Act of 1996, 703, 703n, 706n.3, 708
- Compact discs. *See* CDs
- Conflict of interest, 17–18
- Contracts. *See also* Film industry contracts; Literary publishing contracts; Music publishing contracts; Recording industry contracts; Talent contracts; Theatre contracts
- acquisition of rights by, 68, 69, 322–351
 - of adhesion, 464–483, 521
 - bankruptcy and, 499–507, 507nn.2,3, 508–512, 512nn.1,2, 519n.3
 - breach/termination of, 6, 8nn.8,11, 90–100, 100n.3, 336n.4, 400–403, 458–461, 461nn.2,3,4, 462n.5, 467, 483–486, 588–589, 605–607
- California Civil Code and, 59, 71, 72, 80–81, 103n.2, 104–108, 120, 294–304, 392n, 438–440, 464–483
- California Labor Code and, 90–100, 100n.3
- credit issues and, 112–122, 464n, 633
 - duration of, 78–88, 81n.1, 82nn.2,3,4, 83nn.5,6,8, 109–110
 - fiduciary duties and, 19–26, 369–378, 486n.1, 488–496, 559, 560
 - force majeure* clauses in, 95, 100n.5
 - formality of, 101–109
 - good faith and fair dealing, 88n.1, 89n.2, 386–389, 395, 461n.4, 463n, 464, 478–479, 617–618
 - as implied-in-fact, 282, 294–304, 304nn.1,2, 305–313, 313n, 455, 537–539
- indefiniteness/ambiguity in, 87–88, 88n.1, 103n.9, 442–443, 546–548, 548n, 596–597, 680n, 796–797
- the Internet and, 691, 765–770, 770n.2, 771n.3
- ipso facto* provisions, 507n.1
- moral rights and, 396–400, 400n, 401
 - mutuality in, 87
 - pay or play clauses in, 94n.1, 392n, 461nn.3,4, 631
 - rescission of, 19–26, 74–78, 90, 431–440, 467–468, 472–474, 561–565
- Thirteenth Amendment and, 4523
- unconscionability of, 19–26, 37–39, 78, 464–483, 483n, 494, 521
- Copyright, 68, 216. *See also* Copyright Act of 1909; Copyright Act of 1976; Copyright infringement; Idea submission; World Intellectual Property Organization
- bankruptcy and, 508–518, 518nn.1,2
 - case examples, 103n.8, 561–565, 671–679, 787–792, 793nn.2,3
 - vs. common law property rights, 299
- Digital Millennium Copyright Act of 1998 (DMCA), 584, 691, 715–716
- Digital Performance in Sound Recordings Act of 1995, 584, 715
- fair use doctrine, 718, 720, 757–759, 766n.2
 - film industry and, 534, 539n.2, 589
 - First Amendment and, 433, 431
 - idea vs. expression, 281–282, 286–290, 304n.2, 431, 764n.2
 - international aspects, 4
 - the Internet and, 680–691, 715, 717–735, 756–764
 - joint authorship and, 787–792, 793nn.1,2
 - literary publishing and, 143–149, 507n.2, 534n, 534–536, 541–545, 545n, 589, 690, 793n.3
 - moral rights and, 396–400, 400n
 - music publishing and, 534–535, 554, 555, 556, 558, 573, 575, 589, 590, 690–691
 - recording industry and, 337–340, 340n, 534–535, 582, 603, 715–716
 - shrinkwrap agreements and, 764–770, 766n.1
- Sonny Bono Term Extension Act of 1998, 340n

- technological innovation and, 322–351, 335nn.1,2, 336n.3, 531, 532, 550
- television industry and, 534, 589
- the theatre and, 787–792, 793n.1, 793–799, 793n.2
- Visual Artists Rights Act of 1990, 123, 139–140, 156
- Copyright Act of 1909, 338
renewal provisions, 337, 340–351
- Copyright Act of 1976, 147, 233, 234, 337–351, 630, 685, 687, 765–766. *See also* Copyright; Copyright infringement
- collective works and, 541–546
- vs. Copyright Act of 1909, 343, 345, 346, 348–349
- vs. Copyright Acts of 1790/1831, 350
- mechanical license provisions, 337–340, 593–594, 601
- performing rights, 550, 551, 552, 555, 558, 566–575, 575nn.1,4
- renewal provisions, 343, 345, 346, 348–349
- synchronization rights, 553, 558, 566–567, 568, 573, 575, 576, 602
- transfer provisions, 103n.7, 337, 339–340, 432, 513–517, 518nn.1,2, 519n.5, 545n, 554–558, 566–576, 769–770
- work for hire provisions, 136, 539n.1, 566–568, 791–792
- Copyright infringement, 6, 137, 152–154, 556, 637, 707, 716. *See also* Copyright; Copyright Act of 1976
- case examples, 8nn.2,7, 59–65, 229–231, 254, 282–293, 322–328, 329n, 329–335, 335nn.1,2, 336nn.3,4, 340–351, 396–402, 431–431, 521, 541–545, 545n, 577–579, 601–602, 717–737, 756–764, 761n, 764nn.1,2, 793–799
- Credit
- by contract, 112–121, 463n, 633
- case examples, 112–156, 463n
- disclaimed, 140–156
- in film industry, 112, 117–121, 121n, 633
- joint authorship and, 791–792
- in literary publishing, 143–156, 791–792
- statute/common law and, 122–140
- Damages, 440–442, 461n, 475–477, 674–675
- case examples, 231–237, 458–461, 461nn.2,3,4, 462n.5, 479n
- DeCSS, 684, 736
- Defamation, 6, 157–179, 235–236, 424
- actual malice, 164, 167, 175
- ambiguity and, 161–162, 163, 170n
- burden of proof, 180
- case examples, 8n.9, 159–177, 163n, 170n, 173n, 195–211, 211n.1, 266–274, 336n.4, 461n.4
- of and concerning plaintiffs, 171–177, 173n
- damage to reputation, 177–178
- definition, 157–158, 166
- fact vs. opinion, 158–159
- false light and, 186, 188, 216, 267, 271–272
- falsity and, 159–170, 180
- First Amendment and, 162–163, 164, 168–169, 178, 180, 428
- the Internet and, 691, 707–713, 713n
- prior restraint and, 178
- public officials/figures and, 162, 164, 175, 178–179, 179n.1, 194
- Delivery standards. *See* Standards of delivery/performance
- Digital audio broadcasting (DAB), 550, 584
- Digital Millennium Copyright Act of 1998 (DMCA), 584, 691, 715–716
- Digital Performance in Sound Recordings Act of 1995, 588, 715
- Digital videodiscs. *See* DVDs
- Directors' Guild of America, 521, 632–633
- Beatty arbitration, 390, 392, 394–395, 633
- Cimino arbitration, 390, 392–394, 633
- District of Columbia, right of privacy in, 202–211
- Dramatists Guild, 780, 784
- DVDs, 581, 583, 586, 736
- Electronic Signatures in Global and National Commerce Act, 765n
- Emusic.com, 3, 551, 584, 588
- Entertainment industries, 1–5
- consolidation in, 1–2, 67, 526–527, 551–552, 582–583
- costs in, 67, 69
- creativity in, 67, 68
- delivery standards, 353–354
- international aspects, 1, 3–5, 67, 551–552, 553, 558–560, 638–640, 668, 715
- number of people in, 15
- packaging in, 56n
- technological innovation and, 549–550, 581–582
- trends in, 67–68
- unpredictability in, 67–68, 69
- “Erotic Sound Recordings” statute, 411n.4

- E-Sign Act, 770n.1
- Eurimages, 640
- Europe, 1, 3–5
- European Convention on Cinematographic Co-production, 640
- Exploitation
- case examples, 369–385, 385n, 386–404, 395n.1, 431–431, 534–536
 - fiduciary/nonfiduciary, company as, 369–377, 559
 - limits on, 389–404
 - in music publishing, 559–560
 - name/likeness and, 542
 - obligations to exploit, 378–389, 431–431, 534, 534n, 560–561, 630
- Federal Arbitration Act, 520
- Federal Communications Commission (FCC), 658, 659–661, 662, 669–671, 682, 685, 705n
- Federal Rules of Civil Procedure, 6, 7, 8, 8n.16, 9nn.19,22,31, 368, 656
- Federal Trade Commission, 714
- Federal Trademark Dilution Act of 1995, 265n.5, 755–756
- Fiduciary duties, 6, 31n.3, 531. *See also* Idea submission, confidential relationships and
- case examples, 8n.14, 14, 16, 19–26, 59–65, 64n, 369–377, 377nn.1,2, 464–479, 486n, 489–496, 496n
 - companies and, 369–377, 559
 - contracts and, 19–26, 369–377, 486n, 488–496, 559, 560
- Film industry, 1, 5, 627n. *See also* Film industry contracts
- agents in, 14
 - ancillary markets, 640–641, 669
 - antitrust issues, 642–656, 671
 - changes in, 625–627
 - consolidation in, 1–2, 582, 626–627
 - copyright and, 534, 539n.2, 589
 - costs in, 2, 625–626, 632, 633–635
 - credit in, 112, 117–121, 121n, 633
 - dealmaking in, 662–664
 - delivery standards in, 353, 631
 - distribution of films, 583, 628, 630–632, 634, 635, 641–656, 690
 - exhibition of films, 628, 635, 641–656
 - financing in, 628, 630–632, 636–637, 639–640
 - home video and, 626, 627, 630, 634, 635, 637, 640–641, 689
 - independent production companies in, 626–627, 635–637, 639
 - insurance in, 637–638
 - international aspects, 638–640
 - the Internet and, 630, 690, 736
 - literary publishing and, 539n.2, 640
 - major studios, 2, 69–70, 78, 79–81, 81n.1, 82n.2, 464–465, 626–627, 628–632, 634–635, 639, 642–651, 651n, 658–659, 661, 663–664
 - music publishing and, 552, 553, 556–576, 634
 - net profits vs. gross receipts in, 626, 627, 629–632
 - production of films, 628–641
 - recording industry and, 602, 634, 640
 - risk in, 635, 636
 - splitting arrangements in, 641, 651–656
 - television industry and, 626, 628, 634, 635, 637, 658–659, 661, 663–664
- Film industry contracts, 68, 69–70, 78–79, 462n.5, 602. *See also* Film industry acquisition of rights, 628–635
- case examples, 79–81, 81n.1, 82n.2, 90–94, 94n.1, 95n.3, 103nn.3,9, 117–121, 128–129, 132, 294–304, 304nn.1,2, 305–313, 313n, 323–328, 329n, 342–351, 377n.1, 390–395, 461nn.3,4, 464–483, 539n.2, 628
 - with directors, actors, and writers, 632–633
 - literary works and, 529–530, 531n.1, 539n.2
 - for production/financing/distribution, 630–632
- First Amendment, 6, 648
- cable television and, 670
 - copyright and, 433, 431
 - defamation and, 162–163, 164, 168–169, 178, 180, 427–428
 - limitations on, 404–411, 427–430, 536n
 - right of privacy and, 182, 183–184, 184n.1, 187, 188, 189, 191, 193nn.6,8,9, 194, 195, 197, 198, 199–201, 212n.4, 248, 255n
 - right of publicity and, 216–217, 229–231, 240–241, 242–243, 248, 250, 252–255, 255n, 264, 264n.2, 266–274, 274n.2
- Florida statutes
- and obscenity, 404–411
 - and right of publicity, 219, 221–226, 247–248

- Fourteenth Amendment, 217, 252, 413n.6, 697
- Fourth Amendment, 185n.2
- General Agreement on Tariffs and Trade (GATT), 4–5
- TRIPS (Trade Related Aspects of Intellectual Property Rights), 4, 715
- Georgia Electronic and Signatures Act, 767
- Gnutella, 581
- Harry Fox Agency, Inc., 558, 601
- iCrave TV, 684, 736
- Idea submission, 629–630, 662. *See also* Copyright
- California law and, 294–304, 304n.1, 305
- case examples, 294–304, 304nn.1,2, 305n.3, 305–313, 313n, 315–321, 637, 793nn.1,2
- confidential relationships and, 282, 293–294, 305–313, 313n
- idea vs. expression, 281–282, 286–290, 304n.2
- implied-in-fact contracts and, 282, 294–304, 304nn.1,2, 305–313, 313n
- New York law and, 305, 315–321
- novelty of ideas, 282, 293–294, 300, 304n.2, 305n.3, 305, 313n, 315–321
- Indiana, right of publicity in, 223–226, 247
- Injunctions, 5, 6–7, 101–112, 439–443, 506–507
- California Civil Code and, 105–109
- case examples, 101–102, 102n.1, 103nn.2,3, 108–112, 109n., 116–121, 140–156, 158–163, 264n.1, 265n.3, 442–457, 461n., 577–578, 614–615n, 651–656, 675–679, 684–687, 703, 716–717, 736, 761n
- International Intellectual Property Alliance, 1, 3
- Internet, 1, 5, 246
- case examples, 690–691, 692–701, 703n.1, 708–714, 717–737, 720n, 737–757, 757–761, 761n, 766, 766n.1, 766–767, 769–770, 770n.2, 771n.3
- copyright and the, 680–691, 715, 717–736, 756–764
- costs of doing business on the, 585, 689
- cybersquatting, 755–757
- defamation and the, 690–691, 707–714, 713n
- digital signatures, 767–770, 768n.5
- domain names, 696–701, 696n, 736–751, 755–757, 757n.1
- Emusic.com, 551, 582–583, 588
- ethics websites, 31n.5
- film industry and, 630, 690, 736
- framing, 707
- hyperlinks, 691, 693, 693n, 703, 716
- Internet Service Providers (ISPs), 691, 707–713, 713n, 716
- literary publishing on, 527–528, 532, 540–541, 581
- metatags, 738–739, 740, 751–754, 752n, 755
- MP3.com, 550, 551, 577, 578–579, 684, 690, 717–720, 720n
- music publishing and the, 549, 550, 551, 552, 554, 557, 601, 690–691
- Napster, 550, 581, 584, 684, 690, 720–736
- patent laws and, 764n.3
- personal jurisdiction and the, 692–701, 702n, 715n.3
- piracy on the, 684, 689, 719–720
- privacy and the, 713–715
- recording industry and, 2, 3, 581, 583, 585, 588–589, 601, 689–690, 785–787
- security, 690
- shrinkwrap agreements, 764–770, 766n.1, 771n.3
- software filters, 706n.2
- spamming, 714, 715nn.1,2,3
- television industry and, 657
- the theatre and, 776, 779, 784
- trademarks and the, 692–701, 736–757, 757–764, 761n
- Uniform Computer Information Transactions Act (UCITA), 766, 768–769, 769n.9
- Uniform Electronic Transactions Act (UETA), 768–769, 769n
- Internet Corporation for Assigned Names and Numbers (ICANN), 757n.1
- Judicial Arbitration & Mediation Service, 519
- Kentucky, right of publicity in, 219, 221

- Lanham Act (Trademark Act), 6, 256–258, 584, 638, 756–757, 787–788
- case examples, 8n.1, 127n, 127–140, 135n, 143n, 143–156, 228n.1, 231–243, 243nn.1,2, 248–250, 258–264, 264n.2, 265nn.4,6, 266–274, 275n.2, 275–280, 305n.2, 396–400, 622n.2, 696–701, 714, 737–756, 756–761, 793n.3
- misleading advertising and, 128–132, 143n, 143–149, 248–250, 258–264, 264nn.1,2, 265nn.3,4,5, 266–274, 737–756
- service marks defined, 258
- Sleekcraft factors and, 745–756, 752n
- trademarks defined, 257
- tradenames defined, 257–258
- unfair competition and, 264, 264n.2, 280n, 399–400, 736–756, 759–761
- Latin America, 1, 4
- League of Resident Theatres (LORT), 779, 780–782, 784
- Libel. *See* Defamation
- Literary publishing, 1, 2, 5. *See also* Literary publishing contracts
- agents in, 14, 529, 531
- audiocassettes, 531, 532
- business of, 524–528
- consolidation in, 526–532
- copyright and, 143–149, 534n, 534–536, 541–545, 545n, 589, 690, 793n.3
- credit in, 143–156, 791–792
- delivery standards in, 353, 354–368, 368nn.1,2, 532–533, 585
- film industry and, 539n.2, 640
- international aspects, 527
- online publishing, 528, 532, 541, 581
- Literary publishing contracts, 507n.2, 528–538. *See also* Literary publishing agent-author contracts, 528–529, 531
- case examples, 113–116, 123–127, 127n, 135n, 135–140, 336n.4, 354–368, 368nn.1,2, 379–385, 431–432, 453–457, 519n.3, 528, 529, 537–547, 539nn.1,2, 548n, 690
- custom and usage, 537–541
- foreign licensing, 529
- foreign subpublishing, 527
- future revisions, 536
- merchandising licensing, 529–530
- motion picture/television licensing, 535–531
- “new technologies” clauses, 329–335, 531
- noncompete clause, 533
- option for next work, 536, 545–557, 548n, 587
- paperback licensing, 68, 518n.3, 529
- publication rights, 534
- publisher-author contracts, 528–537
- royalties, 535–537
- “satisfactory in form and content” clauses, 537–533, 589
- scope of, 528–531
- warranties and indemnities, 534–536, 536n
- Louisiana, right of privacy in, 248
- Memphis, City of, Ordinance No. 3957, 412n.5, 413n.7
- Minors, talent contracts with, 71–74
- case examples, 71, 72, 74, 75–78
- Moral rights, 396–400, 400n, 401, 403n
- Motion Picture Association of America (MPAA), 736
- MP3.com, 550, 551, 581, 583, 684, 690
- case example, 717–720
- Multimedia and emerging technologies.
- See also* Internet; MP3.com; Napster
- audiocassettes, 531, 532, 587, 588–600, 597
- audio “streaming,” 588, 736
- CD+, 581
- CD-ROMs, 549, 581
- compact discs (CDs), 549, 552, 553, 581, 582, 584, 585, 587, 588–600, 601
- DeCSS, 684, 736
- digital audio broadcasting (DAB), 550, 584
- digital audio recording devices, 716–717
- digital audio tape (DAT), 581
- digital juke boxes, 549, 588
- digital videodiscs (DVDs), 581, 583, 586, 736
- Emusic.com, 3, 551, 583, 588
- Gnutella, 581
- high definition television (HDTV), 657
- iCrave TV, 684, 736
- iMesh, 690
- minidiscs (MDs), 581
- MP3 files, 550, 691, 716–736
- music videos, 583, 586, 589, 592, 598
- pay-per-view, 549, 630, 636
- personal video recorders (PVRs), 657
- satellite transmission, 549, 625, 657, 660–661
- videocassettes, 329–335, 335nn.1,2, 336n.3, 482, 531, 553, 549, 560, 566, 567, 582, 583, 584, 586, 626, 627, 630, 634, 635, 636, 640–641, 669, 689
- video games, 689, 761n, 761–764, 779

- Music publishing, 1, 2, 5, 565n.4. *See also*
 Music publishing contracts
 accounting and payment, 560, 561–565,
 565nn.1,2,3
 acquisition of rights and, 69
 ASCAP, 550, 553, 558, 566–576,
 576n.2,3, 577–578, 576nn.3,4, 577n.5
 attorneys in, 14–16
 BMI, 550, 553, 558, 566–576, 576n.3
 copyright and, 534, 554, 555, 556, 558,
 573, 575, 589, 588, 690–691
 Emusic.com, 3, 551, 583, 588
 exploitation in, 560–561
 fiduciary duties in, 559, 560
 film industry and, 552, 553, 566–576,
 634
 the Internet and, 549, 550, 551, 552,
 554, 557, 581, 601, 689–690
 mechanical rights licensing societies,
 558
 mechanical royalties, 551, 552–553, 557,
 558, 559, 566, 586, 590, 592, 593–
 595, 598, 601–602, 691
 National Music Publishers Association,
 558, 601
 printed music, 550, 551, 553, 558
 recording industry and, 551–552, 556,
 559–560
 sampling, 550, 578–579, 584
 SESAC, 550, 553, 558
 small performing rights, 550, 551, 552,
 553, 558, 566–576, 576nn.1,4
 sources of revenue in, 552–553
 split licensing and, 577–578
 synchronization rights, 553, 558, 567,
 568, 573, 575, 576, 602
 television industry and, 552, 553, 566–
 576, 577–578
 trends in, 549–550
- Music publishing contracts, 69, 554–559.
See also Music publishing
 administration agreements, 554, 555
 blanket licensing, 566–576, 576n.4
 case examples, 26–29, 56–59, 59n, 109n,
 133–135, 340–342, 435–440, 440n,
 461n.2, 483–486, 486n, 487n.2,
 488nn.3,4,6,7,8, 488–500, 561–565,
 566–576, 576nn.2,3,4, 577–578,
 577n.5
 collection agreements, 555
 co-publishing agreements, 554, 555, 556–
 558
 direct licensing, 568, 572–573
 foreign subpublishing agreements, 554,
 555–556, 557, 558–559
 name/likeness usages and, 557, 559
 options in, 587
 receipts deals, 558–559
 songwriter agreements, 554–555
 source deals, 558–559
 source licensing, 568, 573–576
- Name/likeness
 exploitation and, 537
 music publishing contracts and, 557,
 559
 right of privacy and, 181, 197, 212n.4
 right of publicity and, 212–213, 217–
 226, 219n, 228n.1, 229–231, 237–243,
 253, 621–622, 622nn.1,2, 623n.4
 Napster, 550, 581, 584, 684, 690, 720
 case example, 720–737
- National Conference of Commissioners on
 Uniform State Laws (NCCUSL), 769,
 769nn.8,9
- National Music Publishers Association,
 558, 601
- National Telecommunication and Informa-
 tion Administration, 757n.1
- Netcom Solutions, Inc., 739, 757n.1
- New Jersey, right of publicity in, 243–244,
 248
- New technology. *See* Internet; Multimedia
 and emerging technologies
- New York, 7, 8
 common law right of privacy/publicity
 absent in, 182, 191–192, 211n.2, 212,
 237n, 243, 275n.2, 280n
 entertainment contracts in, 70–71, 614n
 idea submission in, 305, 315–321
 injunction statutes in, 6, 101–102
 provisions on minors, 71, 72–74
 regulation of agents in, 32–36, 37n.2
- New York Arts and Cultural Affairs Law,
 72–74, 77, 778, 785
- New York Bar Association Lawyer's Code
 of Professional Responsibility, 16, 17–
 19
- New York Civil Practice Law and Rules,
 9nn.17,19,23,32,34, 520
 case examples, 692–696
- New York Civil Rights Law
 case examples, 140–142, 146, 149–156,
 171–173, 192–193, 193nn.2,3,4,5,6,
 194–202, 194n.7, 211n.2, 212n.3,4,
 215, 237n, 251–252, 252–255, 258–
 264, 264n.2, 275n.2, 280n
 contracts with minors and, 71
 detailed excerpt from, 192

- right of publicity and, 237n, 243, 247–248, 251–252, 252–255, 264n.2, 275n.2, 280n
- right to privacy and, 182, 192–193, 193nn.2,3,4,5,6, 194–202, 194nn.7,8,9, 208, 211n.2, 212nn.3,4, 215, 258–264
- New York Conflict of Laws, 86–87
- New York General Business Law, 32–36, 37nn.1,2, 39, 151, 264n.2, 304n.2, 787
- New York General Obligations Law, 72, 74, 75
- case examples, 102, 102n.1, 103nn.2,3
- New York Penal Law, 685
- New York Statute of Frauds, case examples, 102, 103nn.3,8,9
- New York Uniform Commercial Code, 475
- case examples, 431–435
- No Electronic Theft Act, 715
- Obscenity and pornography, 428, 584, 702–703, 703n.1
- Miller* tests, 405–411, 411n.1
- Options
- in literary publishing contracts, 536–537, 545–547, 548n, 587
- in music publishing contracts, 587
- in recording industry contracts, 586–587, 607–609
- in television industry contracts, 662–663
- in theatre contracts, 781
- Pay-per-view, 549, 629, 644
- Performance standards. *See* Standards of delivery/performance
- Performing rights societies. *See* ASCAP; BMI; SESAC
- Personal managers, 13, 14–15. *See also* Agents vs. agents, 14, 32, 54, 56, 56n, 57
- case examples, 36, 37–39, 48–56, 52n, 75–78
- Personal rights. *See* Defamation; Lanham Act (Trademark Act); Moral rights; Privacy, right of; Publicity, right of
- Piracy
- case examples, 684–687, 687n.1, 717–736
- of films, 684, 736
- on the Internet, 684, 689, 717–736
- of television programming, 684–687, 687n.1, 736
- Pornography. *See* Obscenity and pornography
- Privacy, right of, 6, 180–211. *See also* Publicity, right of
- actual malice and, 199, 200–201, 202
- appropriation of name/likeness and, 181, 197, 212n.4
- in California, 185n.5
- case examples, 8n.3, 171–173, 182–184, 184n.1, 185nn.2,3,4,5, 186–192, 192–193, 193nn.2,3,4,5,6,7, 194–211, 211nn.1,2, 212n.3,4,5, 226–227, 228n.1, 255n, 258–264
- common law and, 180–182, 191, 208–209, 211n.2, 212n.4, 255n, 280n
- in District of Columbia, 202–211
- expectations of privacy and, 184n.1, 185nn.2,3,4,5
- false light and, 186, 199, 215, 255n
- First Amendment and, 182–184, 184n.1, 187, 188, 189, 191–193, 193n.6, 194nn.8,9, 195–197, 198, 199–201, 212n.4, 248, 255n
- the Internet and, 713–715
- newsworthiness and, 188, 190–192, 195, 197–198, 200, 210–211, 211n.2, 212n.3, 213
- in New York, 182, 192–193, 193nn.2,3,4,5,6, 194nn.7,8,9, 195–202, 208, 211n.2, 212n.3,4, 215, 258–264
- public figures/interest and, 183, 190, 192–193, 194–195, 197–198, 199–200, 202–211, 211n.1, 212n.5, 213
- vs. right of publicity, 181, 212, 213, 217, 226, 248
- in Virginia, 202–211
- Protectionism, 4–5
- Publicity, right of, 212–280. *See also* Privacy, right of
- in California, 217–219, 229–243, 243n.2, 244–247, 247nn.1,2, 248–250, 252–255, 255n
- case examples, 182–184, 195–202, 212–217, 226–244, 228nn.1,2, 248–256, 255n, 258–264, 264nn.1,2, 266–274, 622nn.1,2, 623n.4
- common law and, 180, 195, 198–199, 212–217, 219n, 226–244, 247n.2, 252–255, 255n
- definition, 212–213
- First Amendment and, 216–217, 229–231, 240, 242–243, 248, 250, 252, 253–255, 255n, 264, 264n.2, 266–274, 274n.1
- in Florida, 219, 221–223, 247–248
- in Indiana, 223–226, 247
- in Kentucky, 219, 221

- name/likeness and, 213, 217–226, 219n, 228n.1, 229–231, 237–244, 253, 621–622, 622nn.1,2, 623n.4
- in New Jersey, 243–244, 248
- newsworthiness and, 213, 214–217, 237n, 248–250, 252–255
- in New York, 237n, 243, 249–250, 251–252, 252–255, 264n.2, 277n.2, 280n
- parody defense and, 240, 264n.2
- post-mortem availability, 213, 243–247, 247nn.1,2, 264n.2
- public figures/interest and, 213, 214–217, 248–250, 252–255, 269
- vs. right of privacy, 180, 212, 213, 217, 226, 248
- in Tennessee, 219–221
- Recording industry, 1, 5, 107–108, 143n, 604n. *See also* Recording industry contracts
- attorneys in, 14–16
- consolidation in, 2, 582–583
- copyright and, 337–340, 340n, 534, 582, 603, 715–716
- custom and usage in, 60–602
- delivery standards in, 353, 369n.3, 589
- development of, 550–551, 581–584
- distribution in, 582–583, 690, 715
- film industry and, 602, 634, 640
- “free goods” in, 585, 590, 591, 592, 598
- and the Internet, 2, 3, 581, 583, 585, 588–589, 601, 689–690, 785–787
- music publishing and, 551–552, 556, 559–560
- music videos, 583
- obscenity and, 583
- promotion in, 585–586
- television industry and, 602
- Recording Industry Association of America (RIAA), 690
- Recording industry contracts, 69, 458n.6, 581, 585–604. *See also* Recording industry
- artist recording agreements, 586–600
- breaches of, 605–607, 611–613, 613nn.1,2
- case examples, 19–26, 56–59, 59n, 82n.4, 83nn.5,6, 108–109, 109n, 116–117, 133–135, 338–340, 369n.3, 369–377, 377n.1,2, 385n, 386–389, 447–450, 458n.5, 589, 605–613, 613nn.1,2, 615–621
- container charges and, 587
- custom label agreements, 586, 603–604
- free goods in, 588, 589, 592, 598
- with groups, 589, 609–611
- Harry Fox form, 601
- interference with, 611–613, 613n.2, 615–615, 620–621
- master purchase agreements, 586, 602–605
- master use licenses, 586, 602
- mechanical license agreements, 586, 592, 593–594, 598, 601–602
- option clauses in, 586–585, 607–609
- pressing and distribution agreements, 586, 602–603
- producer agreements, 586, 600–601
- royalty provisions, 587–588, 590–600
- special products agreements, 586, 604
- termination of, 588–589
- Releases, 71
- Remedies, 94, 112, 135n, 180. *See also*
- Bankruptcy; Injunctions
- arbitration, 520–522
- attachment, 5, 7–8
- case examples, 117–121, 431–457, 457nn.2,3, 458nn.4,5,6, 459–487, 486n.1, 487n.2, 488nn.3,4,5,6,7,8,9, 488–513, 513–519, 512nn.1,2, 518nn.1,2, 519nn.3,4,5
- damages, 117–121, 231–237, 280n, 441, 442, 459–461, 461nn.2,3,4, 462n.5, 476–475, 605–607
- rescission, 19–26, 74–78, 90, 435–440, 468, 473–475, 561–565
- “restraint of trade” cases (U.K.), 484–487, 486n.1, 487n.2, 488n.3,4,5,6,7,8,9, 619–620
- self-help, 427–435
- summary judgments, 5, 7, 288
- San Antonio, City of, Ordinance 61, 412n.5, 413n.7
- Screen Actors’ Guild, 71, 521, 632
- Securities Act of 1933, 779
- Service marks, 258, 275n.2, 275–280, 622n.1. *See also* Lanham Act (Trademark Act)
- SESAC, 550, 553, 558
- Sherman Antitrust Act, case examples, 643–656, 671–687
- Slander. *See* Defamation
- Sonny Bono Term Extension Act of 1998, 340n
- Sound recordings. *See* Recording industry; Recording industry contracts
- Standards of delivery/performance
- case examples, 354–368, 368nn.1,2, 369n.3

- in film industry, 353, 631
- in literary publishing industry, 353, 354–368, 368nn.1,2, 533–534, 589
- in recording industry, 353, 369n.3, 589
- in television industry, 353
- Summary judgments, 5, 7, 288
- Syndication in television industry, 658, 662, 663, 664–666, 670
 - case examples, 671–679
- Talent contracts, 67–156
 - breach/termination of, 90–122
 - case examples, 8n.5, 71, 72, 73–74, 74–78, 79–81, 81n.1, 82nn.2,3,4, 83nn.5,6, 83–88, 94n.1, 95nn.2,3, 95–100, 100nn.1,2,4, 101–102, 108–122
 - enforceability, 70
 - formality of, 101–112
 - with minors, 71–74
 - oral agreements, 101–102, 102n.1, 103nn.3,4,5,6, 104n.11, 112–116
- Talent representatives. *See* Agents; Business managers; Personal managers
- Technology. *See* Internet; Multimedia and emerging technologies
- Telecommunications Act of 1996, 414n.9, 703
- Television industry, 1, 5, 526. *See also* Television industry contracts
 - agents in, 14
 - ancillary markets, 668–669
 - antitrust issues, 671–684
 - broadcast television, 630, 657–658, 659–660, 661, 664–665, 670
 - cable television, 6, 549, 577, 582, 583, 627, 630, 658, 660–661, 665–669, 670–671, 766, 769
 - changes in, 657–659
 - copyright and, 535, 589
 - creating/acquiring programming, 662–664
 - deficit funding in, 664
 - delivery standards in, 353
 - distribution in, 583, 669–684
 - FCC and, 658, 659–660, 660–661, 662, 669–671, 682, 685, 705n
 - film industry and, 626, 628, 634, 635, 637, 658–659, 661, 663–664
 - high definition television (HDTV), 657
 - home video and, 669
 - international aspects, 4–5, 668
 - the Internet and, 657
 - major studios, 658–659, 661, 662–664
 - music publishing and, 552, 553, 566–576, 577–578
 - network-affiliate relationship, 659–660, 670
 - pilots in, 662
 - piracy issues, 684–687, 687n.1, 736
 - ratings in, 666–668
 - recording industry and, 602
 - satellite transmission, 549, 627, 657, 660–661
 - split licensing and, 574–578
 - syndication in, 658, 662, 663, 664–666, 670, 671–679
 - the theatre and, 766
- Television industry contracts, 70, 602, 662–664. *See also* Television industry
 - case examples, 88n.1, 89n.3, 95n.2, 95–100, 100nn.1,2, 101–102, 102n.1, 103n.6, 323–328, 329–335, 335nn.1,2, 365n, 395n.1, 450–457, 457nn.1,2, 458nn.4,5
 - development deals, 663–664
 - and literary works, 531–532
 - options in, 662–663
- Tennessee, 6, 7, 8, 9nn.17,19,32,34, 614n
- Adult-Oriented Establishment Act, 413n.6
- right of publicity in, 219–221
- Theatre, the, 1, 2, 5, 773–774. *See also* Theatre contracts
 - agents in, 14
 - antitrust issues, 777, 778n.1
 - audiences for, 779–781
 - Broadway productions, 773–774, 775, 776
 - consolidation in, 777
 - copyright and, 787–792, 793nn.1,2, 793–799
 - costs in, 773–774, 776–777
 - financing in, 777–779, 777n.1, 778n.2, 784–786
 - and the Internet, 776, 779–780, 784–785
 - League of Resident Theatres (LORT), 779, 780–782, 784
 - in London, 778
 - Off-Broadway productions, 774–775, 776, 778–780
 - Off-Off-Broadway productions, 774, 775, 778–780
 - regional theatres, 779
 - television industry and, 776
 - Tony Awards, 774, 777n.2
 - touring productions, 780–781
- Theatre contracts. *See also* Theatre, the

- Approved Production Contracts (APCs), 780–785
 case examples, 785–793, 793nn.1,2, 793–801
 international aspects, 781, 783–784
 options in, 781–782
 royalties and guarantees, 781–783, 784–785
- Thirteenth Amendment, 452–453
- Trademarks, 692–701
 defined, 257
 Federal Trademark Dilution Act of 1995, 265n.5, 756
 and the Internet, 692–701, 736–756, 757–766, 761n
See also Lanham Act (Trademark Act)
- Tradenames, definition of, 257–258. *See also* Lanham Act (Trademark Act)
- TRIPS (Trade Related Aspects of Intellectual Property Rights), 4, 715
- Unconscionability of contracts, 19–26, 37–39, 77–78, 464–483, 483n, 493–494, 521
- Uniform Commercial Code, 769n.8, 770n.1
- Uniform Computer Information Transactions Act (UCITA), 766, 768–769, 769n.9
- Uniform Electronic Transactions Act (UETA), 768–769, 770n.1
- Unions/guilds
 Actor's Equity Association, 31–32, 521, 778–779
- American Federation of Musicians (AFofM), 603
- American Federation of Television and Radio Artists (AFTRA), 521, 603
- Authors Guild, 532–533, 536
- Directors' Guild of America, 392–395, 521, 632–637
- Dramatists Guild, 781, 784–785
- Screen Actors' Guild, 71, 521, 632
- Writers' Guild of America, 112, 121n, 521, 632, 633, 663
- Utah Digital Signatures Act, 767
- Videocassettes, 531, 549, 553, 560, 567, 568, 582, 583, 584, 585, 586, 587, 669
 cases involving, 329–335, 335nn.1,2, 336n.3, 479–484
 film industry and, 626, 627, 630, 634, 635, 637, 640–641, 689
- Virginia, right of privacy in, 202–211
- Visual Artists Rights Act of 1990, 123, 139–140, 156
- Washington State
 anti-spamming law, 715n.2
 “Erotic Sound Recordings” statute, 411n.4
- World Intellectual Property Organization (WIPO)
 Treaty on Copyright, 715
 Treaty on Performances and Phonograms, 715
- World Wide Web. *See* Internet
- Writers' Guild of America, 112, 121n, 521, 632, 634, 663

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