

**BUSINESS AFFAIRS**

**A Practical Guide to Copyright Ownership and Transfer: The Differences Between Licenses, Assignments and Works Made for Hire and Suggestions for Analyzing Which One is "Best" for a Particular Transaction**

**by Lionel S. Sobel**

Robert J. Ringer, also known as "The Tortoise," earned himself at least a footnote in publishing history when his first book, *Winning through Intimidation*, was released in 1975. Some 200,000 hardback copies were sold, making it the second biggest-selling book of the year. That alone would have put Ringer's name in the almanac. But the most remarkable thing about his

achievement is that he published *Winning* himself, after every major publishing company he approached turned him down cold.

Best-selling books come along every year. Self-published successes are almost unheard of. It is simply a fact of life that those who create successful literary, musical and artistic works are separate and distinct from those who manufacture and sell such works. Economists say there are "efficiencies" in this division of labor. And psychologists might explain it by describing different personality traits that are necessary for each task. Whatever the reason, it is accepted custom that authors and artists create while businessmen manufacture and sell.

Because this is the way business is actually done, it is necessary for creators to have some legal protection for their work. And it is necessary for them to authorize others to market that work, in exchange for payment. The Copyright Act is what protects the work of writers,

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composers and artists. Under the Copyright Act, there are three ways they may authorize others to manufacture and sell their work: they may license it; they may assign it; or they may create it as a work made for hire.

There are significant differences between licenses, assignments and works made for hire. Some of these differences concern the formalities of copyright, such as notice and registration, but not the economics of the authorization deal. Other differences effect the economics of the deal - and are controversial precisely because they do. Indeed, because the form of the deal may effect its economics, and because of the belief that publishers have greater bargaining power than writers and composers and artists, legislation' has been introduced at the federal and state level to correct this perceived imbalance. In California, state legislation has been enacted and became effective January 1, 1983. Federal legislation is now pending. The significance of this legislation

is that it may not only correct bargaining power imbalances, it may also be a trap for unwary publishers in ways that may never have been contemplated.

## Definitions

Licenses, assignments and works made for hire are used by creators of all types: writers, composers and visual and performing artists. For simplicity's sake, this article refers to all of these as "authors." It does so because "author" is the term the Copyright Act uses to refer not only to creators of literary works, but also to those who create musical works; dramatic works, pantomimes and choreographic works; pictorial, graphic and sculptural works; motion pictures and other audiovisual works; and sound recordings. (Section 102.)

Also for simplicity's sake, this article refers to all who manufacture and sell the works of authors as "publishers." It does so because the Copyright Act defines "publication" as the "distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending." Distributing copies or records of a work for the purpose of further distribution or for public performance or display also constitutes "publication." (Section 101.) Given this definition, record companies, movie producers, television producers, and computer-software companies all are "publishers," as much so in fact as are book, magazine and graphic art publishers.

A "license" is nothing more than permission to use a copyrighted work in an agreed upon fashion. If the license is non-exclusive, the copyright owner may license more than one publisher to use the work in the same fashion. If the work is exclusive, however, only the

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licensee may use the work in the agreed upon fashion (though the copyright owner may authorize other publishers to use the work in other ways).

An "assignment" is a transfer of the ownership of the entire copyright, or of any of the exclusive rights that copyright confers. (Section 101.)

A "work made for hire" is one of two things. It is either "a work prepared by an employee within the scope of his or her employment." Or, it is a "specially ordered or commissioned" work, if it was ordered or commissioned for specific purposes under specified circumstances. The only "specially ordered or commissioned" works which qualify as "works made for hire" are those that are ordered or commissioned for use (1) as a contribution to a collective work, such as a magazine or anthology; (2) as a part of a motion picture or other audiovisual work; (3) as a translation; (4) as a supplementary work; (5) as a compilation; (6) as an instructional text; (7) as a test or

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as answer material for a test; or (8) as an atlas. Furthermore, even if the work is ordered or commissioned for one of these eight purposes, it qualifies as a work made for hire only "if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire." (Section 101.)

## Differences Affecting Formalities

### Ownership of Copyright Initially and After Transfer

The Copyright Act confers all of its exclusive rights on "the owner of copyright." (Section 106.) Initially, the owner of the copyright in a work is the "author" of that work. (Section 201(a).) Thus, initially, the owner of the copyright is the writer, composer, artist or performer who created the work.

When an author grants a non-exclusive license to a publisher, the author owns the copyright initially and continues to own the copyright after the license is granted. This is true for works of all kinds. But apparently to be certain this was perfectly clear for contributions to collective works, such as magazines and newspapers, the Copyright Act specifically provides that unless there is an "express transfer of copyright," it is presumed that the only thing conveyed to the publisher of such a work is the "privilege" of reproducing and distributing the contribution as part of that particular collective work. (Section 201(c).) In other words, the Act presumes that when a freelance magazine or newspaper writer sells an article, the only thing granted is the "privilege" of including the article in one issue, unless the writer signs an agreement granting more.

When an author grants an exclusive license to a publisher, the author owns the copyright initially and

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continues to own the copyright itself in the work after the license is granted, although the exclusive licensee becomes the owner of the particular rights that are licensed. (Sections 101 and 201(d)(2); 3 Nimmer on Copyright Sec. 10.02[C] at p. 10-30 (1983).)

When an author assigns his or her copyright, or assigns any of the exclusive rights conferred by copyright, the assignee becomes the owner of the copyright or of the particular rights assigned. (Section 101.)

When a person creates a work made for hire, the employer or other person for whom the work is prepared is the "author" for copyright purposes, and as such owns the copyright from the outset, unless the parties agree otherwise in writing. (Section 201(b).)

## Method of Transfer

Non-exclusive licenses may be granted by any method. No formalities are required. Thus, nonexclusive licenses may be granted orally and may even be implied by the circumstances (as when readers send letters to the editor of a newspaper or magazine without specifically indicating they may be published).

Exclusive licenses and assignments, on the other hand, must be in writing, signed by the copyright owner or the owner's authorized agent. The writing may be a formal "instrument of conveyance." But it need not be. An informal "note or memorandum" confirming the transaction is sufficient, so long as it is signed. (Section 204(a).) A work prepared by an employee within the scope of his or her employment is a work made for hire, even in the absence of a written employment agreement. As a work made for hire, the copyright belongs to the employer from the outset. An employer and employee may agree that the copyright in such a work shall belong

to the employee instead of the employer, but in order for such an agreement to be valid, the agreement must be in writing and signed by both. (Section 201(b).)

A specially ordered or commissioned work (which falls into one of the eight categories described above) also may be a work made for hire, but only if both parties sign a written agreement that the work shall be considered one made for hire. In such a case, the copyright belongs from the outset to the person for whom the work was prepared. If, however, the parties do not sign such an agreement (or if the work does not fall into one of the eight categories described above), the work is not a "work made for hire," even though it was specially ordered or commissioned. In that event, the copyright belongs to the person who created the work. Even if the parties do agree in writing that the work is one made for hire (and the work falls into one of the eight specified categories), the parties also may agree that the copyright

shall belong to the creator anyway, rather than to the person for whom the work is prepared. But in order for such an agreement to be valid, the agreement (as well as the for hire agreement) must be in writing and signed by both. (Section 201(b).)

### Notice of Copyright

A copyright notice must be placed on all publicly distributed copies of published works. In addition to the copyright symbol or the word "Copyright" and the year of first publication, the notice must contain the name of the owner of the copyright (Section 401(b).)

Thus, when an author licenses a work on a nonexclusive basis, it should be published with a notice in the name of the author, not the licensee. Fortunately for those who contribute to magazines, newspapers and other collective works on a freelance basis (such as

writers, photographers and illustrators), the Copyright Act specifically provides that although each contribution to the work "may" bear its own copyright notice, a single notice for the entire collective work is sufficient to satisfy the notice requirement for each contribution. (Section 404(a).)

Works licensed by an author on an exclusive basis also should be published with notice in the name of the author rather than the licensee. This is so because the author is the owner of the copyright itself, while the licensee - even an exclusive licensee - is the owner of only the particular rights that are licensed. (3 Nimmer on Copyright sec. 10.02[C] at p. 10-31. (1983).)

A work whose copyright has been assigned should be published with notice in the name of the assignee, because after the assignment, the assignee is the owner of the copyright.

A work made for hire should be published with notice in the name of the employer or other person for whom the work was prepared, because the employer or other person is the "author" of the work and the owner of the copyright in it. (Section 201(b).)

### Registration Procedures

An application for copyright registration may be made only by the copyright owner or by the owner of any exclusive right in the work. (Section 408(a).) The application itself must include (among other things) the name of the copyright "claimant" and the name of the "author," and if the claimant and the author are not the same, "a brief statement of how the claimant obtained ownership of the copyright." (Sections 409(1), (2) and (5).)

Thus, when an author grants a non-exclusive license, the author is the only one who may file the registration

application, and the author's own name should be given as author and claimant. This means that when a freelance author contributes to a periodical on a non-exclusive basis (and that would be the basis, unless the author expressly agrees otherwise in writing), the author is the oily one who may apply to register his or her claim to the copyright in the contributed work. If an author's periodical contributions are published with their own separate copyright notices in the author's own name, the author may register his or her copyrights to all of those works published within a twelve-month period, in a single application and for a single registration fee, even if they are published in different periodicals. (Section 408(c)(2).) For a prolific freelancer, this may result in significant savings in registration fees and paperwork. Of course, the periodical publisher is entitled to register its own claim to the compilation copyright for the periodical issue as a whole, because as to the whole issue,

the publisher is the author and the claimant. But the publisher's registration would not cover the freelancer's copyright to his or her own particular contribution. (Section 409(9).)

When an author grants an exclusive license to a work, either the author or the licensee may file the registration application. But regardless of which one files it, the author's name should be given as both author and claimant.

When an author assigns the copyright to a work, the registration application should give the author's name as the author and the assignee's name as the claimant. Here the registration application also will have to indicate that the claimant obtained ownership of the copyright by assignment. Although the written assignment itself need not be submitted with the registration application, the assignment will have to be recorded in the Copyright Office before an infringement action is instituted (though

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suit may be filed after the assignment is recorded on account of infringements that took place before it was recorded). (Section 205(d).)

If the work being registered is a work made for hire, the name of the employer or other person for whom it was prepared should be given as both the author and the claimant. And the application must indicate that the work was made for hire. (Section 409(4).)

### Standing to Sue for Infringement

The owners of any of the exclusive rights conferred by copyright may sue for infringement of the particular rights they own. (Section 501(b).)

This means that when an author grants only a nonexclusive license, the author - but not the licensee may file suit.

On the other hand, an exclusive licensee may sue for infringement of its exclusive rights. (Section 501(b).) Before an exclusive licensee may do so, however, the written license agreement must be recorded in the Copyright Office, if it was not previously recorded. (Section 205(d).) If the exclusive licensee agrees to pay the author royalties calculated as a percentage of sales, then the author retains a "beneficial interest" in the exclusive rights granted to the licensee, and the author too may file an infringement suit. (3 Nimmer on Copyright sec. 12.02 at p. 12-26.1 (1983).) If, however, the author's compensation is not affected by the infringement, then only the licensee and not the author - may file suit.

An assignee also may sue for infringement of any of the rights that have been assigned to it. (Section 501(b).) The assignee too will have to record the written assignment in the Copyright Office, if it was not previously recorded, before suit may be filed. (Section 205(d).) And

as is the case with exclusive licensees, if the assignee agrees to pay the author royalties calculated as a percentage of sales, then the author retains a "beneficial interest" in the rights granted and also may file suit for infringement. If the author's compensation is not affected by the infringement, then only the assignee, and not the author, may sue.

If the infringed work is one that was made for hire, then only the employer or other person for whom it was prepared may sue for infringement. (Section 501(b).)

### Duration of Copyright

The duration of copyright depends not only on whether a work is licensed, assigned or made for hire, but also on whether it was created before or after January 1, 1978.

As a general rule, the copyright in a work created since January 1, 1978 lasts until 50 years after its author's death. (Section 302(a).) Thus, the copyright in such a work that is licensed (exclusively or nonexclusively) or assigned to a publisher will last as long as its author lives plus an additional 50 years. However, the duration of copyright for a work made for hire, created since January 1, 1978, is 75 years from the year of its first publication (or 100 years from the year of its creation, in those unusual cases where first publication does not occur until 25 years or more after its creation). (Section 302(c).)

Works created prior to January 1, 1978 are treated differently. Copyrights in pre-1978 works which were in their "first term" (under the 1909 Copyright Act) have a 28-year duration measured from the date when the copyright was first secured, and the term may be renewed for an additional 47 years, if the copyright owner chooses to

do so. (Section 304(a).) Thus, the copyright to a pre-1978 work which is licensed (exclusively or non-exclusively) will be 28 years from the date the copyright was first secured (usually, but not always, by publication of the work). And the author - not the licensee - may renew the copyright for an additional 47 years. The same is also true of any such work the copyright to which was assigned (unless the author also assigned the right to renew, in which case the right to renew belongs to the assignee rather than to the author). The copyright to pre- 1978 works made for hire also is 28 years; but the right to renew belongs to the employer or other person for whom it was prepared. (Section 304(a).)

The duration of copyright for works that already were in their "renewal terms" (under the 1909 Act) in 1977 has been extended so that those copyrights will last until 75 years from the date they were first secured. (Section 304(b).) Who gets to benefit during the extension period

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depends on whether such works were licensed, assigned or made for hire. But the question of who benefits is one of economic substance, not mere formality.

## Differences Affecting the Economics of the Deal

### The Right to Terminate Transfers

Any license (exclusive or non-exclusive) or assignment executed by an author since January 1, 1978 may be terminated by the author 35 years after it is executed. (Section 203(a)(3).) If such a license or assignment is terminated, all of the rights that were granted to the licensee or assignee revert to the author (though any derivative works prepared before termination may continue to be used). Section 203(b.) On the other hand, where the work is made for hire, the employer or other person for whom it is prepared is the "author"

under the Copyright Act, and the person who actually created the work does not have the right to terminate the work's "for hire" status or otherwise obtain the copyright to it.

Where a license (exclusive or non-exclusive) or an assignment was executed prior to January 1, 1978, the author may terminate the license or assignment 56 years after the copyright was first secured. (Section 304(c).) Again, however, if the work was made for hire, the person who actually created it may not terminate. (Section 304(c).)

Though this right to terminate may benefit relatively few authors, it is a valuable one in some cases. (See, e.g. Krasilovsky and Meloni, Copyright Law as a Protection Against Improvidence: Renewals, Reversions, and Terminations, 5(4) Communications and the Law 3 (Fall 1983). Moreover, if the right is exercised, it can be costly and present serious problems for some publishers.

(See, e.g., Colby, *Commissioned Works Under the United States Copyright Act*, 2 *Journal of Copyright, Entertainment and Sports Law* 1 (1983), and Colby, *Copyright Revision Revisited: Commissioned Works as Works Made for Hire Under the United States Copyright Act*, 5 *Whittier Law Review* 491 (1983). This is so because the rights that may be terminated include not only the right to publish the work as originally created, but also the right to prepare derivative works such as remakes and sequels of movies and new arrangements and recordings of musical compositions. (See, e.g., *Harry Fox Agency, Inc. v. Mills Music, Inc.*, 720 F.2d 733 (2d Cir. 1983).)

### Right to Authorize and Profit from Ancillary Uses

Perhaps the most controversial distinction between licenses, assignments and works made for hire is the



difference the form of the transaction may have on which party has the right to authorize and profit from ancillary uses of the copyrighted work. (See, e.g., Steinberg, *Journalists' Rights to Their Own Works*, 8 *Columbia Journal of Art & the Law* 113 (1983).)

A non-exclusive licensee acquires no ownership in copyright. The author retains ownership of the work and all rights in it. This means that the author has the right to authorize and profit from all subsequent uses of the work, including ancillary uses and even additional uses identical to those which the non-exclusive licensee has been authorized to make of the work.

An exclusive licensee, on the other hand, is the owner of the particular rights granted to it and has the exclusive right to profit from the use of those rights - subject of course to the obligation to pay the author the agreed upon consideration for that use. However, it is the very nature of a license that the rights granted to the licensee

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are specified in the licensing agreement. And the author retains the exclusive right to authorize and profit from all other rights which are not granted to the exclusive licensee.

An assignment may convey the entire copyright or only specified rights under the copyright. If an assignment conveys only specified rights, it is very much like an exclusive license for those rights. The author retains the exclusive right to all of the rights which are not specifically granted. If the assignment is of the entire copyright, then the assignee is entitled to authorize and profit from any and all uses of the copyrighted work, subject to any limitations or conditions on that right imposed by the assignment itself.

Thus, the important distinction between an exclusive license and an assignment is this. When a license or assignment of limited rights is granted, the licensee or assignee receives and has the right to profit only from

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those rights specifically granted to it, while the author automatically retains all other rights. On the other hand, when an assignment of the entire copyright is granted, the assignee receives and has the right to profit from all of the rights except those specifically reserved to the author by contract; and of course, the author retains only those he or she has specifically reserved by contract. This distinction obviously affects which party has the burden of anticipating - and drafting language to deal with - future contingencies such as the development of new media and other ways of commercially exploiting a work. (See, e.g., *Platinum Record Company, Inc. v. Lucasfilm, Ltd.*, 566 F.Supp. 226 (D.N.J. 1983).)

Where a work is made for hire, the right to authorize and profit from ancillary uses belongs entirely to the employer or other person for whom the work was created, unless the parties expressly agree otherwise in writing. (Section 201(b).) Scripts written by screenwriters under

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contract to motion picture and television producers usually are works made for hire, and thus the producers are considered the "authors" of those scripts and the owners of the copyrights in them. (See, e.g., The Colby articles cited above.) Virtually all successful screenwriters belong to the Writers Guild of America which has entered into a collective bargaining agreement with virtually all producers. This agreement contains a provision entitled "Separation of Rights" in which the producers have agreed that screenwriters - rather than the producers - shall have the right to exploit their works in certain ancillary (i.e., other than movie or TV) markets under specified conditions. (WGA Basic Agreement, Article 16, see also, Gurian, Some Lesser Known Provisions of the W.G.A. 1981, *Theatrical and Television Minimum Basic Agreement*, 2 *Loyola Entertainment Law Journal* 19 (1982).) This provision of the WGA agreement is precisely the sort of express agreement contemplated by

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the "works made for hire" section of the Copyright Act. (Section 201(b).) Screenwriters, bargaining collectively through the WGA, had the bargaining power to get such an agreement from their employers. But other writers, as well as artists, illustrators, photographers and designers, have not, except perhaps in particular individual cases. As a result, the works they create "for hire," plus the right to authorize and profit from the use of those works in ancillary markets, belong to their employers, almost always.

### Traps for Unwary Publishers

Because of the benefits that publishers enjoy when works are considered works made for hire, especially in connection with ancillary uses of the work and preventing the termination of grants, many publishers use "work made for hire" language in their contracts as a routine

matter. This may no longer be a prudent course of action, however, because the potential burdens of using "for hire" contracts may now outweigh the actual economic value of the benefits obtained, for many publishers. Some of these burdens have been created by recent California legislation. And others have been highlighted by pending federal legislation.

### California Legislation

In 1982, California enacted a bill amending the state's Labor and Unemployment Insurance Codes. (Senate Bill No. 1755; Chapter 1332 of the Statutes of 1982.) The amendments, which became effective January 1, 1983, are slight in bulk but significant in impact.

The legislation amended the statutory definition of "employee" found in the California Workers' Compensation Act. That definition now includes any person who

creates a specially ordered or commissioned work made for hire, if the person for whom the work is created obtains all of the rights in the work's copyright. (Labor Code sec. 3351.5(c).) Because creators of works made for hire are now "employees" under the Workers' Compensation Act, those publishers who use work made for hire contracts now must maintain workers' compensation insurance coverage for those they sign to such contracts. (Labor Code sec. 3700.) Even more significantly, the 1982 legislation also makes such publishers liable to those they have signed to "for hire" contracts for any injuries sustained by them in the course of their work, even though the injury was not the result of any negligence on the publisher's part. (Labor Code sec. 3600.) Thus, if a writer who has been signed to a work made for hire contract is injured in an auto accident while driving to a library to do research, the publisher is liable

to that writer, even if the accident was caused solely by the negligence of the other driver.

The legislation also amended the California Unemployment Insurance Code's definition of "employer" to include any person who specially orders or commissions a work made for hire, if that person obtains all of the rights in that work's copyright. (Unemployment Insurance Code sec. 686.) As a consequence, publishers who use work made for hire contracts now must contribute to the state's unemployment insurance fund on the basis of payments made to those they have signed to such contracts. Those publishers also must withhold (and transmit to the state) from payments made to those signed to such contracts contributions to the state's disability insurance fund. If these contributions are not made, the state may assess the amount due plus penalties and interest. (Unemployment Insurance Code sec. 976, 986, 2901, 2903.)



Classifying the parties to work made for hire contracts as "employers" and "employees" also raises the specter that California's taxing authorities may treat them as such for state income tax withholding purposes. It does not appear that California has taken such a position yet, and it may never do so. The 1982 legislation quite specifically amended the Labor Code and the Unemployment Insurance Code only. California's Revenue & Taxation Code, which contains the state's income tax law, was not amended in similar fashion. Federal law is somewhat more ambiguous on this point, however, and will be made more so if a currently pending bill is enacted.

### Pending Federal Legislation

In November 1983, Senator Thad Cochran of Mississippi introduced a bill, S.2138, which would amend the

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Copyright Act's definition of "work made for hire." The bill is supported by 48 associations representing writers, artists, photographers, and designers, and is designed to correct "industry abuse" of work for hire arrangements. (The bill is a revised version of a similar bill that was introduced in the last Congress, but never enacted. For a discussion of the merits and demerits of that bill, see the Colby and Steinberg articles cited above.) When Senator Cochran introduced S.2138, he explained that, "The theory of the work-for-hire doctrine is that the employer or commissioning party is entitled to authorship of the work because he conceives, directs, and controls the production of the work and bears the financial risks of development. While this argument is a strong one for works prepared by an employee in the course of his employment, it holds little water for many freelancers who conceive and develop a work in their own studios. Yet artists, writers and others complain that work-fore-hire

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contracts are forced even, when the publisher exercises little or no control over the production of the work. And in many instances, work-for-hire agreements are demanded after a work has already been created - sometimes by use of a restrictive endorsement on a payment check, a practice clearly outside the intent of the work-for-hire laws." (Cong.Rec., Nov. 11, 1983, at p. S16963; 27 BNA Patent, Trademark & Copyright Journal 129 (Dec. 1, 1983).)

S.2138 would "address these inequities" in three ways. First, it eliminates four kinds of works from the current list of those that may be treated as works made for hire: contributions to collective works (such as freelance magazine and newspaper articles); contributions to audiovisual works other than motion pictures (i.e., contributions to movies will still be eligible for work made for hire status); supplementary works; and instructional texts. Thus, although these kinds of works now may be

treated as works made for hire, even if created by freelance independent contractors, if S.2138 is enacted, these four kinds of works will be eligible for work made for hire status only if created in the course of true employer-employee relationships.

Second, S.2138 would add a provision to the Copyright Act which would give certain rights (which are analogous to screenwriters' "separated rights" under the Writers Guild Basic Agreement) to freelance journalists, textbook authors and illustrators, and audiovisual work creators (other than those who work on motion pictures).

Third, in order to dissuade publishers from asserting that a true employer-employee relationship exists (thus entitling the publisher to "author" status and complete copyright ownership) when in fact no such relationship does exist, S.2138 provides that unless federal payroll taxes are withheld as required by sections 3102 and

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3404 of the Internal Revenue Code, the publisher "shall be presumed not to be an employer."

This third provision raises a troubling thought concerning work made for hire contracts, whether or not S.2138 is enacted. Suppose, for example, that an agreement between a publisher and a creator specifies that the creator's work is a "work made for hire," but the work does not qualify for that status under the "specially ordered or commissioned" definition found in section 101 of the Copyright Act (as that section now reads or as S.2138 would amend it). Master recordings, for example, may not qualify as "works made for hire" under the "ordered or commissioned" definition, even though recording contracts commonly state that they are works made for hire. (See, e.g., Horsnelf, Works Made for Hire in Sound Recordings Under the Copyright Act of 1976, 2 Journal of Copyright, Entertainment and Sports Law 61 (1983).) Similarly, specially ordered or commissioned

legal treatises do not appear to qualify for work made for hire status, though West Publishing Company routinely describes them as such in the contracts West uses when commissioning such works.

If a work does not qualify as a specially ordered or commissioned work made for hire, but the publisher insists that it is, then the work is "made for hire" only if it is prepared by the creator as an "employee within the scope of his or her employment." (Section 101.) In that event, federal tax law requires the publisher to deduct and pay over the "employee's" share of federal income and Social Security taxes. And it requires the "employer" to pay its share of Social Security taxes and federal unemployment insurance contributions. "Employee" status also may entitle those who have been signed to work made for hire contracts to any health and life insurance coverage and other employee benefits that the publisher provides for its other employees.

While it does not appear that the IRS or any freelance writer has yet taken such a position, it is not difficult to imagine circumstances under which either or both might. In light of this possibility, publishers should ask themselves whether the actual economic value of "work made for hire" benefits is worth the contingent risk that they may be classified as the "employers" of those signed to such contracts, given all of the costs normally associated with "employer" status. The answer for many publishers may well be "no."

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## RECENT CASES

### **Supreme Court rules that home video recording of television broadcasts does not infringe copyright, and that recorder manufacturers are not liable for contributory infringement**

Betamax owners no longer have to worry that Jack Valenti will be at their doors to reclaim their time shifted tapes of "Casablanca" and "The Bear Who Slept Through Christmas." It was close, however. The Supreme Court's 5 to 4 decision which, as the headlines would have it, "okayed" home taping, actually contained far-reaching analyses by the majority and dissent of the impact of technology and the fair use doctrine on the scope of copyright holders' rights.



Justice John Paul Stevens began the majority opinion by reviewing the history of the long-running dispute between Sony Corporation and Sony Corporation of America, Inc., the manufacturer and distributor of Betamax home video recorders, and Universal Studios and Walt Disney Productions, the copyright owners of numerous television programs. Home video cassette recorders most often are used by their owners to tape programs exhibited on commercially sponsored television for viewing at a later time. In an action filed in 1976, the studios alleged that home video taping infringes their copyrighted works, and that Sony, by marketing the Betamax recorder, was liable for the infringements allegedly committed by the owners of the recorders. (The action did not involve such issues as the transfer of video tapes to other persons, the use of home recorded video tapes for public performances, or the copying of programs transmitted on pay or cable television

systems.) Relief was sought, not against Betamax owners, but rather against Sony in the form of damages, an equitable accounting of profits, and an injunction against the manufacture and marketing of the Betamax recorder.

A Federal District Court in California entered judgment for Sony, ruling that home video recording was not an infringement of the studios' copyrights under either the 1909 Copyright Act or the Copyright Revision Act of 1976. The court found that the copyrighted material was broadcast free to the public, that the use by consumers was of a noncommercial character, and that even if an entire copyrighted work was recorded, there was no reduction in the market for the studios' original work. The court also pointed out that home use of the video recorder served the public interest by increasing access to television programming.

As an independent ground of decision, the District Court found that Sony could not be held liable as a

contributory infringer even if the home use of a video recorder were to be considered an infringement, because Sony maintained no direct involvement with any Betamax purchasers. Sony merely sells a product, such as a typewriter or a camera, capable of a variety of uses, only some of which were allegedly infringing. The court concluded that an injunction was inappropriate because the possible harm to the studios was outweighed by the potential use of the Betamax to record noncopyrighted material or material recorded with the permission of the copyright owner. (ELR 1:11:1)

Subsequently, the Ninth Circuit Court of Appeals reversed the District Court, and held that off-the-air video recording - even for private, noncommercial purposes - is an infringement. The appellate court rejected the District Court's comparison between video recorders and items such as typewriters, noting that the video recorder's primary purpose always has been the

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reproduction of television programming and 'virtually all" such programming is copyrighted. The Court of Appeals therefore would have charged Sony with knowledge of infringing activity on the part of Betamax owners.

The Court of Appeals also concluded that home video taping was not a fair use of copyrighted material because it was not a "productive use." Thus, it was unnecessary for the studios to prove harm to the potential market for their copyrighted works. (At the same time, however, the court observed that the likely cumulative effect of mass taping would be to diminish the potential market for such works.) The court suggested that a continuing royalty pursuant to a judicially created compulsory license might be an appropriate form of relief for copyright owners. (ELR 3:13:1)

The United States Supreme Court has rejected the Court of Appeals' "unprecedented" attempt to impose

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liability on a distributor of taping equipment, relying in large part on the findings of the District Court. Justice Stevens emphasized that the monopoly privileges that Congress may grant to copyright holders under Article 1, Section 8 of the Constitution are "neither unlimited nor primarily designed to provide a special private benefit." Furthermore, it is Congress, rather than the courts, that must accommodate competing interests when major technological changes alter the market for copyrighted material, Justice Stevens declared. With these constrictions having been established, the Supreme Court nevertheless proceeded to examine the issues before it, commencing with the question of contributory infringement.

The Copyright Act, while not expressly providing that one may be held liable for infringing activities committed by another party, does not preclude the imposition of liability for contributory infringement. In *Kalem Co. v.*

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Harper Brothers, 222 U.S. 55 (1911), a case relied upon by the studios, the Court held that the producer of an unauthorized film dramatization of the copyrighted book "Ben Hur" was liable for his sale of the film to jobbers, who in turn arranged for the commercial exhibition of the film. The studios argued that supplying the "means" to accomplish an infringing activity and encouraging that activity through advertisements are sufficient actions to establish liability for contributory infringement. Justice Stevens found, however, that Kalem did not support this "novel theory of liability." The producers in Kalem supplied the copyrighted work itself in a new medium of expression and personally advertised the unauthorized public performances. Sony does not supply Betamax users with the studios' works, but with a piece of equipment with a broad range of potential uses, stated Justice Stevens. Furthermore, Sony does not maintain an ongoing relationship with its Betamax purchasers so as to be

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in a position to control the uses of the taped works. The only contact between the company and Betamax owners occurs at the moment of sale; and the District Court had found no evidence that home taping was influenced or encouraged by Sony's advertisements.

The studios also claimed that Sony was liable for contributory infringement because of the company's alleged constructive knowledge of the fact that consumers might use the Betamax recorder to make unauthorized tapes of copyrighted material. But the sale of copying equipment would not constitute contributory infringement if the product has "substantial noninfringing uses," emphasized Justice Stevens. The concept of substantial noninfringing uses is an aspect of patent law which the Court's majority, in a key area of disagreement with the dissent, found applicable to the case.

The most significant "noninfringing" use of the Betamax, stated the Court, is time-shifting - the taping

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of programs for viewing at a later time. According to the Court, time-shifting enlarges the television viewing audience and by doing so, reduces the possibility of proving that home taping impairs the commercial value of a copyright. Moreover, either due to audience enlargement or for other reasons, there is a significant amount of broadcast programming whose copying is authorized by copyright holders. For example, representatives of professional baseball, football, and basketball testified that they had no objection to the recording of televised events for home viewing. During the District Court trial, Fred Rogers, president of the corporation holding the copyright to "Mr. Rogers' Neighborhood," testified that in his opinion the recording of childrens' programs for showing at appropriate times is a "reat service to families." The Court stated that given the amount of authorized taping, it would not restrict Sony from distributing its video recorder without further evidence of the

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company's direct involvement with the allegedly unauthorized reproduction of the works of Universal and Disney - studios with a combined share of less than 10% of the television programming market.

The Court next considered the issue of fair use. Under section 107 of the Copyright Act, one factor in determining whether an unauthorized use of a work is an infringing use is the commercial or nonprofit character of the activity. When used for time-shifting, video recorders are used for a noncommercial, nonprofit purpose. The fact that an entire copyrighted work may be reproduced does not preclude a finding of fair use, stated the court, because the viewer otherwise would have watched the entire work - free of charge - at the time the work originally was broadcast. Also, it was not shown that the practice of librarying tapes would substantially effect the potential market for a copyrighted work. The evidence at trial indicated that television production by

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Universal and Disney was at a highly profitable level and was unlikely to be changed by the advent of the Betamax.

Congress may wish to "take a fresh look at this new technology," stated Justice Stevens, but the suggestion that copyright owners may be entitled to collect royalties on the sale of video recorders or tapes would enlarge the scope of the copyright privilege beyond that authorized by Congress at the present time.

Justice Harry A. Blackmun, in dissent, commented that the studios' position was hardly "unprecedented" in copyright law. Section 106(1) of the 1976 Copyright Act grants to copyright owners the exclusive right "to reproduce the copyrighted work in copies or phonorecords." The making of even a single video tape recording is a "copy" falling within this definition, stated Justice Blackmun. Congress has not created, or in any way implied the existence of, a general exemption for

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the home taping of a single copy of a television program, whether or not made for private use.

Justice Blackmun also questioned whether the recording of a tape could constitute fair use when an entire work is reproduced and used for its original purpose with no productive benefit to the public. The fair use doctrine acts as a form of subsidy to permit a second author, most often a scholar, to make limited use of another author's work for the public good. Other circumstances where a "subsidy" has been approved include works of criticism, news reporting and teaching. These are productive uses, with benefits extending beyond those to the user. However, the most typical video recorder owner should not be entitled to such a fair use subsidy at the author's expense, stated Justice Blackmun. The fact that a copyright owner chooses to license a work for a single television performance does not extinguish its right to limit or even cut off further access to

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the work. Justice Blackmun cautioned that the majority's extension of the doctrine of fair use might "erode the very basis of copyright law" by depriving authors of control over their works and consequently of their incentive to create.

Furthermore, two statutory fair use factors that were "all but ignored" by the majority also indicated to Justice Blackmun the infringing nature of time shifting. One factor - the nature of the copyrighted work - has been applied to limit the protection accorded by copyright to informational works such as news reports that may be used productively by others. But entertainment shows account for more than 80% of the programs taped by video recorder owners. An additional statutory factor - the amount and substantiality of the portion used - was called "even more devastating to the Court's interpretation." Virtually all video recorder users tape entire works, creating an exact substitute for the copyrighted

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original. "Fair use is intended to allow individuals ... to copy small portions of original works that will facilitate their own productive labors. Time shifting bears no resemblance to such activity and the complete duplication that it involves might alone be sufficient to preclude a finding of fair use," Justice Blackmun said.

Justice Blackmun then stated that when the proposed use is an unproductive one, a copyright owner may be required to prove only a reasonable possibility of harm to the market for, or the value of, the copyrighted work. Proof of actual harm may be impossible when the effect of a new technology is speculative; but copyright protection should not be denied on the basis that a new technology that may result in harm has not yet done so. The studios argued that video recording might reduce their ability to market their works in movie theaters and through the rental or sale of prerecorded video tapes, and could reduce rerun audiences and syndication

license fees. Furthermore, if advertisers believe that video recorder owners will delete commercials when viewing their tapes, or if rating services are unable to measure the video recorder audience, the capacity to time shift might even reduce license fees to copyright owners for the initial broadcast of a program.

Justice Blackmun concluded that the District Court had applied an incorrect standard in finding that there was no likelihood of harm to the studios, particularly in failing to consider the effect of video recording on the potential market for the copyrighted works. The studios demonstrated that video recorder technology has created such a potential market, namely, those individuals who will pay for the privilege of watching copyrighted works at their convenience. These individuals purchase video recorders and tapes and most likely would pay some kind of royalty to copyright holders, thereby increasing the value of a copyrighted work. But the studios

effectively have been deprived of the ability to exploit this new market.

As to the issue of contributory infringement, Justice Blackmun noted that case law doctrine has established the principle that a contributory infringer need not have actual knowledge of particular instances of infringement; it is sufficient that the alleged infringer has reason to know that an infringement is taking place. And it is not necessary for the contributory infringer to be aware that the infringing activity violates the copyright laws. It was undisputed that Sony had reason to know that its Betamax recorder would be used by some owners to tape copyrighted works off the air. The District Court found that Sony had advertised the Betamax as suitable for off-the-air recording of "favorite shows," with no warning, except in the Betamax instruction manual, that such recording could constitute copyright infringement. Justice Blackmun therefore agreed with the Court of

Appeals that Sony induced and materially contributed to the infringing conduct of Betamax owners.

With respect to the majority's finding that a manufacturer of a product may not be liable for contributory infringement if the product is capable of substantial non-infringing uses, Justice Blackmun stated that this definition "essentially eviscerates the concept of contributory infringement" since most manufacturers would be able to demonstrate that their products have noninfringing uses. The dissent observed that if no one would buy a product for the non-infringing purposes alone, the manufacturer is profiting from the infringement and liability would be properly imposed. Non-infringing uses of the Betamax recorder might include the recording of works that are not protected by copyright, recording works that have entered the public domain, recording with the permission of the copyright owner, or any recording that qualified as fair use. But it is the amount of

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video recorder usage that is infringing, rather than the amount of television programming that is copyrighted, that is the "key question," revealed Justice Blackmun. And this essential factual question, in Justice Blackmun's view, should have been remanded to the District Court for further findings.

Justice Blackmun concluded by noting that many remedies might have allowed for the continued use of video recorders for time shifting purposes. Sony could have paid royalty fees or could have equipped its video recorders with a mechanism to prevent the unauthorized taping of individual programs. Or if consumer royalty payments or limited equitable relief were not feasible, the studios might have turned to statutory damage claims for proven instances of infringement. A broad injunction barring the future sale of video recorders most likely would not have been the remedy of choice. The prospect of such an injunction was an unfortunate factor

clouding the majority's decision, stated Justice Blackmun, a decision which provides little incentive for Congress to undertake a thorough consideration and equitable resolution of the issues raised in this action.

Sony Corporation of America v. Universal City Studios, Inc., Case No. 81-1687 (U.S.Sup.Ct., Jan. 17, 1984) [ELR 5:9:10]

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**New York court bars unauthorized use of names and performances of the Beatles in connection with distribution of an album containing the group's Christmas messages to fan club members**

A New York court has denounced as "blatant piracy" The Adirondack Group's manufacturing and distributing, without authorization, of a record album and tapes of the

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Beatles' Christmas messages. The Christmas messages were recorded by the Beatles from 1963 through 1969 and were distributed on flexible discs each Christmas, free of charge, to members of the Beatles' fan clubs. In 1970, the messages were collected and reproduced on a long playing record entitled "The Beatles' Christmas Album." The album also was distributed to club members.

When the Adirondack Group began distributing an album entitled "John, Paul, George and Ringo," Apple Corps sought a preliminary injunction, alleging unfair competition and violation of the Beatles' right of publicity. Apple Corps is owned equally by the three surviving former Beatles and by John Lennon's widow. Apple claimed that it possessed the right to exploit all performances of the Beatles as a group. (Apple has granted EMI Records, Ltd., the exclusive rights to the Beatles' works and, in turn, EMI has granted Capitol Records an

exclusive license to manufacture and distribute all Beatles records in the United States and Canada.)

Adirondack alleged that it obtained the right to distribute the Christmas messages from Peter Bennett, a former employee of the Beatles' manager Allen Klein. Bennett asserted that in 1972 or 1973, John Lennon made an oral gift to him of all right, title and interest in the performances.

In granting Apple's motion for an injunction, State Supreme Court Justice Edward J. Greenfield first noted that there were no documents to support Bennett's claim. Oral testimony by Bennett concerning a personal transaction with Lennon was barred under New York's "dead man" statute which exists "expressly so that persons cannot assert an adverse claim to title based upon alleged oral dealings with a person no longer available to refute it." It was pointed out that Bennett made no attempt to exploit the purported gift of the right to

reproduce and market the master tapes of the messages until after Lennon's death in December 1980. The court found that the names of the Beatles, taken together, have acquired a secondary meaning. And the title of Adirondack's album did not insulate the company from a charge of unfair competition. In a potentially classic statement, Justice Greenfield observed that "Four persons named John, Paul, George and Ringo will not be taken by the public as a reference to the Moskowitz Brothers, to the Pope and two other people, or to anyone else except the members of the best known singing group in the world."

Adirondack also argued that the Christmas messages were in the public domain. The distribution of copyrightable works to the general public without compliance with statutory formalities may result in public domain status. But the Christmas messages were distributed prior to the passage of the Sound Recording Copyright Law in 1972. Hence, Apple's state law claim for unfair

competition was not preempted, the court ruled. While the Beatles may not have intended to engage in the commercial distribution of the Christmas messages, the group did not abandon its proprietary rights in the recording. The cover and the label of the Christmas album expressly reserved all rights exclusive of copyright.

Justice Greenfield refrained from addressing Apple's right of publicity claim, noting, however, that he was unfamiliar with any New York cases recognizing such an independent right.

Apple Corps Limited v. The Adirondack Group, New York Law Journal, Dec. 19, 1983 (p. 15, col. 4) [ELR 5:9:13]

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**Use of celebrity's name and photo on cover of magazine in connection with false but non-defamatory article may violate celebrity's right of publicity, California courts hold in cases filed by Clint Eastwood and Tom Selleck against the National Enquirer**

Clint Eastwood may get a few dollars more from the National Enquirer for the unauthorized use of his name and likeness. And Tom Selleck appears to be on the same high road to success in a separate but similar case of his own against the Enquirer.

In his case, Eastwood has blazed the trail for a new cause of action regarding the right of publicity. The issue before a California Court of Appeal was whether the unauthorized use of a celebrity's name, photograph or likeness on the cover of the National Enquirer, in connection with a nondefamatory article which is false but presented as true, constitutes an actionable violation of

that person's right of publicity. The court has held that it does.

In its April 13, 1982 edition, the Enquirer published an article about Eastwood's alleged romantic involvement with singer Tanya Tucker and actress Sondra Locke. The article was entitled "Clint Eastwood in Love Triangle." On the cover of that edition appeared the pictures of Eastwood and Tucker above the caption "Clint Eastwood in Love Triangle with Tanya Tucker." Eastwood alleged that the article was false in that, among other things, it falsely stated that he loves Tucker and Tucker means a lot to him, Tucker used her charms to get what she wanted from Eastwood, Eastwood and Tucker shared ten fun-filled romantic evenings, they publicly "cuddled" and publicly gazed romantically at each other, Eastwood is locked in a romantic triangle involving Tucker and Sondra Locke, and that he is torn between



the two of them. The Enquirer used Eastwood's name and photograph without his consent or permission.

Eastwood alleged in his complaint against the Enquirer that the Enquirer telecast advertisements in which it featured Eastwood's name and photograph and mentioned prominently the subject article. He also alleged that the publication and the advertisements were calculated to promote sales of the Enquirer.

Eastwood stated two causes of action in his complaint. The first was for invasion of his privacy in that the Enquirer portrayed him in a false light in the public eye; the second was for commercial appropriation of his name, photograph and likeness under both common law and California Civil Code section 3344. The tort of false light invasion of privacy focuses on the falsity and offensiveness of the public revelation, while the tort of commercial appropriation generally concerns any

unauthorized use for profit of the plaintiff's name or likeness, whether offensive or not and even if true.

The Enquirer did not challenge the legal sufficiency of the first cause of action for invasion of privacy by placing Eastwood in a false light. The Enquirer did, however, demur to the second cause of action, contending it was insufficient in that Eastwood's name and photograph were not used to imply an endorsement of the Enquirer and that his name and photograph were used in connection with a news account. The lower court sustained the demurrer without leave to amend. But the Court of Appeal has reversed.

A common law cause of action for commercial appropriation is based on the use of the plaintiff's identity and some commercial or other advantage without the plaintiff's consent and with resulting injury (diminution in marketability of the plaintiff's name or likeness) and/or unjust enrichment to the defendant. California Civil

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Code section 3344 provides a statutory remedy where the plaintiff's name, photograph or likeness is used in any manner for purposes of advertising products, merchandise, goods or services, or for purposes of solicitation of purchases of products, without plaintiff's prior consent and with resulting injury. Turning to the issue of whether the Enquirer had commercially exploited Eastwood's name, photograph or likeness, the court noted that "One of the primary purposes of advertising is to motivate a decision to purchase a particular product or service. The first step towards selling a product or service is to attract the consumer's attention. Because of a celebrity's audience appeal, people respond almost automatically to a celebrity's name or picture. Here, the Enquirer used Eastwood's personality and fame on the cover of the subject publication and in related telecast advertisements. To the extent their use attracted the reader's attention, the Enquirer gained a commercial

advantage. Furthermore, the Enquirer used Eastwood's personality in the context of an alleged news account... to generate maximum curiosity and the necessary motivation to purchase the newspaper."

The Enquirer argued that the use of Eastwood's name, photograph and likeness is not actionable because it is exempt as a news account under Civil Code section 3344(d), which provides that "a use of a name, photograph or likeness in connection with any news ... shall not constitute a use for purposes of advertising or solicitation." The court recognized that the privilege resulting from the constitutionally guaranteed freedom of the press enjoys great breadth where, as here, a celebrity is involved, one who "has relinquished la part of his right of privacy to the extent that the public has a legitimate interest in his doing, affairs or character." Yet, the court refused to require "a total sacrifice of the competing interest of Eastwood in controlling the commercial

exploitation of his personality." Instead, "a proper accommodation between these competing concerns must be defined, since 'the rights guaranteed by the First Amendment do not require total abrogation of the ... right of publicity.'"

The Enquirer insisted that whether an article is a news account does not turn on its truth or falsity. The court disagreed. "In defamation cases, the concern is with defamatory lies masquerading as truth. Similarly, in privacy (and publicity) cases, the concern is with nondefamatory lies masquerading as truth." The court concluded that the "Eastwood article could not be protected as a "news" account if, as Eastwood alleged, it was false and published with reckless disregard of its falsehood. The court added that "the First Amendment does not immunize Enquirer when the entire article is allegedly false." The court held that "the deliberate fictionalization of Eastwood's personality constitutes

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commercial exploitation, and becomes actionable when it is presented to the reader as if true with the requisite "disregard of its falsity."

The court in *Eastwood* issued its opinion on December 1, 1983. One day earlier, a Superior Court in California, faced with a nearly identical claim by Tom Selleck against the *Enquirer*, similarly concluded that Selleck sufficiently pled a cause of action for commercial appropriation of his name and likeness in an allegedly false *Enquirer* article, even though the article was nondefamatory. The article at issue concerning Selleck described a provocative, exciting relationship between Selleck and Victoria Principal. Selleck alleged, however, that he had never met Victoria Principal at the time the article was published. The court overruled the *Enquirer's* demurrer to Selleck's cause of action for commercial appropriation.

Interestingly, the Superior Court had tentatively ruled against Selleck on this issue, but was persuaded to change its position after nearly one hour of oral argument by Professor Melville Nimmer, co-counsel for Selleck.

In *Selleck*, just as in *Eastwood*, the Enquirer argued that the right of publicity cannot be used as a "catchall" tort for claims by public figures that do not rise to the level of defamation, and that no cause of action is stated for commercial appropriation absent the use of Plaintiff's name to endorse or promote a product. In this regard, the Enquirer contended that its publication is not a product. *Selleck*, however, cited a number of cases involving the right of publicity in which "product" was defined with great breadth, including motion pictures, stage shows and magazines. If these are "products," *Selleck* argued, then so too are the copies of the *National Enquirer*, the sale of which were enhanced by the

unauthorized use of plaintiff Selleck's name and likeness. Selleck further argued that even if Section 3344 is construed not to apply to newspapers because they are not deemed to be products, he is entitled to relief under his common law right of publicity, which was supplemented but not limited or superseded by section 3344.

Based on Eastwood and Selleck, it would seem that a false yet nondefamatory use of a celebrity's name or likeness in a newspaper or similar publication is actionable as a commercial appropriation of name or likeness only if the unauthorized use is on the cover of the publication such that it would have attracted the reader's attention and promoted the sale of the publication.

In early January 1984, the Enquirer petitioned for a hearing before the California Supreme Court in Eastwood.



Eastwood v. National Enquirer, Inc., No. 67746 (Cal.App., Dec. 1, 1983); Selleck v. National Enquirer, Inc., No. C441180 (Cal.Super.Ct., Nov. 29, 1983) [ELR 5:9:13]

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**National Enquirer is granted summary judgment in defamation action filed by former close friend of actress Elizabeth Taylor**

The National Enquirer has successfully defended a defamation action brought by Henry Wynberg, a former "close personal friend" of actress Elizabeth Taylor. On March 2, 1976, the Enquirer published an article concerning the Wynberg-Taylor relationship. The article contained comments by Johann Sebastian Bach, Taylor's business manager at the time, which purportedly

mischaracterized Wynberg as an individual who financially exploited his relationship with Ms. Taylor.

In granting summary judgment to the Enquirer, a Federal District Court (in an opinion issued in August 1982, but only recently published) found that the allegedly defamatory statements were non-actionable because they were sentiments and opinions, or were substantially true statements of fact. It was noted that even opinions "which criticize the character, habits, motives and morals of an individual - without more are non-actionable."

Furthermore, the allegedly defamatory statements which were not Bach's personal opinions, were substantially true. Wynberg had borrowed money from Taylor, purchased items for his personal use with Taylor's money, and left the relationship owing debts to Taylor.

The court also pointed out that Wynberg's past conduct rendered him "libel proof" in this case, because First Amendment considerations of free press and speech

would have to prevail over Wynberg's interest in his verifiably tarnished reputation. Wynberg had been convicted of criminal conduct on five separate occasions; the convictions, which received considerable press coverage, involved charges such as contributing to the delinquency of minors involving sex and drugs, bribery, and grand theft. Wynberg, according to the court, also had established a specific reputation for taking financial advantage of Elizabeth Taylor.

The court concluded by finding that, even if Wynberg's general reputation in business matters and in his financial dealings with Taylor had been "good," Wynberg had failed to establish that the Enquirer acted with actual malice in publishing the allegedly defamatory article. The author and editors of the article had demonstrated that they reasonably relied upon their sources of information.

Wynberg v. National Enquirer, Inc., 564 F.Supp. 924  
(C.D.Ca. 1982) [ELR 5:9:15]

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**Briefly Noted:**

**Copyright.**

A Federal District Court in New York has ordered Capricorn Club Inc. to pay Broadcast Music Inc. \$2,000, representing statutory damages of \$250 for each of the eight BMI copyrighted compositions infringed by the club, and has enjoined any further infringement. Joseph Terrose, the named defendant, denied liability claiming that the club is owned by Capricorn Club Inc. However, the court concluded that due to Mr. Terrose's "total control over supervision of the day-to-day operation" of the club, he was individually liable for the

infringing activity. Terrose argued further that BMI failed to establish any musical training of their investigators that would enable them to identify the music performed. Because it was not denied that the compositions were in fact performed, the acuity of the investigators' musical ears was not noteworthy.

BMI v. Terrose, Civ. 81-302C (W.D.N.Y. 1983) [ELR 5:9:15]

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### **Copyright.**

An action alleging that BMI's licensing scheme violates federal antitrust laws has been dismissed by a Federal District Court in Illinois. Attempting to avoid the precedents established in BMI v. CBS (ELR 1:1:1) and BMI v. Moor-Law, Inc. (ELR 3:18:1), the owner of "Johnnies

83 Club" argued that BMI's procedures constituted a group boycott. These allegations were based on BMI's refusal to settle its claim against the defendant or to accept his proposed licensing arrangements. The court found that these allegations do not support a group boycott claim and dismissed the action.

BMI v. Glisson, Case No. 83 C 0160 (E.D.Ill. 1983)  
[ELR 5:9:16]

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### **Employment Contract Guarantees.**

The Colorado Court of Appeals has held that failure to mitigate damages and unjust enrichment are not proper defenses to a hockey coach's suit to recover under a section of his contract providing that, upon the hockey team's failure to extend his term, the coach would

receive \$35,000. Don Cherry was employed to coach the Colorado Rockies for two years. The contract provided that the coach would receive \$35,000 should the team fail to renew the contract for an additional two years. Cherry was relieved of coaching duties prior to the end of the first year, but he continued to receive his salary for the remainder of the two-year term. The contract was not renewed and the team refused to pay, arguing that Cherry would be unjustly enriched and that he had failed to mitigate his damages. The court, noting that the contract was unambiguous, held that evidence regarding the team's intent and reason for inserting the option provision was inadmissible. Where a plaintiff seeks payment of a debt based on the contract rather than salary reimbursement for a contract breach, the defendant is not entitled to an offset by way of mitigation, the court held. Likewise, the court ruled that unjust

enrichment does not apply to agreements deliberately entered into.

Cherry v. A-P-A Sports, Inc., 662 P.2d 200 (Colo.App.

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**Sports.**

A Federal District Court, in denying a motion for a preliminary injunction, has held that irreparable harm was not shown where an inability to participate in post-season tennis matches abroad was the maximum harm suffered. A college student transferred to the University of Pennsylvania after playing varsity tennis for a year at Arizona State University. National Collegiate Athletic Association and Eastern Collegiate Athletic Conference bylaws require a student to be in residence for one year



before playing varsity tennis for the transferee school. Pursuant to a temporary restraining order issued by the court, the student was allowed to play tennis for his new school. The only harm to the student based on NCAA and ECAC rules was the possibility that he would be unable to participate in post-season tennis matches abroad at university expense, should the team be invited to compete. There was no evidence that plaintiff was likely to be selected to play in the NCAA tournament even if injunctive relief were granted. The court noted that the student had not offered evidence that he was likely to prevail on the merits of his claim, although the court made no decision on the merits.

Weiss v. Eastern College Athletic Conference, 563 F.Supp. 192 (E.D. Penn. 1983) [ELR 5:9:16]

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## **Sports.**

The Supreme Court of Louisiana has held the granting of a "tentative date" by the State Athletic Commission for a championship boxing match did not create a property interest in that date. In an earlier ruling by a lower court (ELR 4:18:7), Super City Boxing Production Inc. was granted an injunction against another promoter planning to stage closed-circuit television coverage of the Sugar Ray Leonard/Tommy Hearns fight on Super City's "tentative date." The Civil District Court of Orleans has held that the "tentative date" gave rise to a property interest and that the Commission, in denying Super City further right in the date, had acted arbitrarily, capriciously and in abuse of its discretion. This decision was later affirmed by the court of appeal. But in the final round before the Louisiana Supreme Court it was held that Super City did not have a "legitimate expectation"

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to promote a live fight on the "tentative date," and therefore did not have a constitutionally recognizable property interest. The court distinguished the Commission's "formal approval" from the "tentative permission" claimed by Super City. Formal approval requires the furnishing of signed contracts, as well as an arena, neither of which Super City was able to produce. The court took note of testimony offered by one of the Commissioners that Super City's proposed match between Sean O'Grady and Claude Noel was "an impossible match from the beginning," as O'Grady no longer held the championship title and Noel had prior commitments. In addition, the court interpreted the applicable state law to provide for the sole and full discretion of the Commission "to determine what is in the best interest of boxing." Noting Super City's inability to coordinate its promotion and the overshadowing nature of the Leonard-Hearns fight, the court held that the

Commission's action was not arbitrary, capricious or an abuse of discretion, but in fact was in the best interest of boxing.

Super City Boxing v. Louisiana State Athletic Commission, 423 So.2d 643 (La. 1983) [ELR 5:9:16]

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### **Sports.**

A professional athlete's right to bring suit for injuries sustained during play has been upheld by a New York appellate court. Elliot Maddox, a former centerfielder for the New York Yankees, was injured while playing at Shea Stadium in 1975. Maddox claimed that his injury was caused by negligence in the design, construction and maintenance of the playing field. The City of New York claimed that by continuing to play on a field he

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knew to be in a dangerous condition, Maddox assumed the risk of his injury. The City's defense was based on a line of New York cases which held that "participants in athletic events had assumed the risk of injury. . . ." However, in Maddox's case, the court distinguished these cases as involving amateur athletes voluntarily participating in a sport. The court noted that one who must assume a known risk in order to continue "in the reasonable course of his work" will not be held to be contributorily negligent as a matter of law. The parties were ordered to "play ball" on the issue of whether it was reasonable for Maddox to have continued to play under all the circumstances.

Maddox v. City of New York, 467 N.Y.S.2d 772 (Sup. 1983) [ELR 5:9:16]

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## Sports.

A bereaved fan's suit against the National Football League Players Association arising out of the 1982 player strike falls within the exclusive jurisdiction of the NLRB, a Florida appellate court has ruled. The fan purchased season tickets from the Tampa Bay franchise and sought to recover money damages from the player's union for its members' failure to perform as scheduled. Although state courts may retain jurisdiction over labor activity matters that are of "peripheral concern" to the NLRB, the court noted that here the strike itself was at issue, and thus it prohibited the trial court from hearing the case.

Nat. Foot. Leag. Play. Ass'n, AFL-CIO v. Pope, 431 So.2d 347 (Fla.App. 1983) [ELR 5:9:17]

**Tax.**

The constitutionality of a license tax imposed on professional sports promoters by the City of Berkeley has been upheld by a California Court of Appeals. The city's "Professional Sports Events License Tax" was contested by the then Oakland Raiders football team, because it was imposed on them for games played in the U.C. Berkeley football stadium in 1974 and 1975. The annual license tax amounted to ten percent of gross receipts including concession income and season ticket sales. The Raiders received little yardage from their claims that the tax deprived them of equal protection because it was imposed on them but not on amateur athletic events or other businesses. The court found the classification to be rationally based "on substantial differences between the pursuits separately grouped." The Raiders' argument that the tax on season tickets sold prior to its enactment

denied them due process also fell short. The court noted that "the business taxed is the exhibition of professional football games occurring after the enactment of the ordinance," and it found the use of gross receipts as a measure of the tax to be appropriate.

City of Berkeley v. Oakland Raiders, 192 Cal.Rptr. 66 (Cal.App. 1983) [ELR 5:9:17]

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### **First Amendment.**

A blanket order closing all pretrial records in the DeLorean criminal proceedings has been held unconstitutional by a Federal Court of Appeals. The closure order, issued on December 22, 1982, was in reaction to the extensive press coverage surrounding John DeLorean's indictment on federal drug charges. The District judge

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ordered that all documents be filed under seal without affording members of the press an opportunity to comment on the propriety of sealing any particular document. On March 22, 1983, this order was amended to provide for a 48-hour period in which the press would be allowed to comment. The appellate court, noting that "the first amendment right of access to criminal proceedings apply ... to pretrial documents," applied to the "Brooklier" test which must be met to "establish that the procedure is strictly and inescapably necessary in order to protect the fair-trial guarantee." The three-part "Brooklier" test requires a showing, on a document-by-document basis, that there is a substantial probability (1) that public proceedings would result in irreparable damage to defendant's right to a fair trial, (2) that no alternative to closure would adequately protect this right, and (3) that closure would effectively protect it. Finding that the District Court's blanket order failed to pass any of

these tests, the appellate court ordered all documents unsealed unless the lower court conducts a "Brooklier" hearing with respect to each document it proposes to seal.

Associated Press v. U.S. Dist. Ct. for C.D. of Cal., 705 F.2d 1143 (9th Cir. 1983) [ELR 5:9:17]

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### **Defamation.**

A state college financial aid director is a "public official" for defamation purposes, thus resulting in a qualified privilege for a television station accused of defaming him, the Utah Supreme Court has ruled. Television station KUTV broadcast an interview of female students who accused the director of financial aid at Weber State College of sexual harassment when they

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met with him for financial assistance. The plaintiff argued that he did not occupy a position inviting public scrutiny, and was not, therefore, a "public official." The court held that "public scrutiny was engendered by the use and distribution of scholarship funds at a state institution which received most of its moneys from the federal government." The students' charge of sexual harassment bore directly on the director's fitness and qualification to hold that position, and thus the court held that KUTV's broadcast was subject to a qualified privilege.

Van Dyke v. KUTV, 663 P.2d 52 (Utah 1983) [ELR 5:9:17]

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**IN THE NEWS**

## **CBS Records restrains unauthorized importation of compact discs**

CBS Records has obtained an injunction restraining Bennett/Zgarka Music Ltd. from the unauthorized importation, sale and distribution of sound recordings copyrighted by CBS, including works by such artists as Michael Jackson, Journey and Willie Nelson.

Bennett/Zgarka, operating as Rhythms, a Canadian record distributor, obtained compact discs which were lawfully manufactured in Japan by CBS/ Sony and arranged for their importation into the United States. Federal District Court Judge David N. Edelstein also enjoined C.J. Tower and Sons of Buffalo, a customs broker, from processing such import translations in violation of copyright law. Tower was ordered to pay \$3500 in damages, costs and attorneys fees to CBS.

Bennett/Zgarka was required to recover, within 10 days, all its CDs currently in the United States and ship them back to Canada. If CBS thereafter recovers the CDs, they will be the label's property to be disposed of as CBS sees fit.

The unauthorized importation of records acquired outside the United States is prohibited by the Copyright Act. Section 602 of the Act makes unauthorized importation an infringement of the copyright owner's exclusive right to distribute copies.

CBS Records has been especially vigilant about protecting its rights under Section 602. Last summer, it obtained a preliminary injunction against a record store in New York City that had been importing Canadian-made copies of Michael Jackson's "Thriller." CBS Records, also reportedly obtained a presuit agreement from a California record distributor that had been importing CBS compact discs from Japan. (ELR 5:4:19) In 1982,

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CBS Records obtained a consent decree from a New York record distributor barring it from distributing imported albums by Blue Oyster Cult, Journey and Santana. (ELR 4:10:7) [Feb. 1984] [ELR 5:9:18]

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**Television newscaster Christine Craft is awarded \$325,000 in retrial of fraud claim against former employer**

Television journalist Christine Craft has been awarded \$325,000 in damages by a federal court jury in her action alleging that Kansas City television station KMBC had misrepresented the terms of her employment as an anchorwoman. Craft stated that during job negotiations with the station, she was told that she was being hired for her skill, not her appearance. However, in 1981, Craft allegedly was told that the station found her "too

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old and too unattractive," and she was demoted from co-anchor to reporter.

Craft's award amounted to \$225,000 in actual damages and \$100,000 in punitive damages. Craft previously recovered a jury verdict of \$500,000 on her fraud claim, but the award was struck by a Federal District Court judge who found the amount "excessive," and possibly influenced by publicity or instruction errors (ELR 5:7:12).

In the earlier proceeding, Craft's sex discrimination and Equal Pay Act claims were dismissed.

Metromedia, the former owner of KMBC, once again plans to appeal the jury verdict. [Feb. 1984] [ELR 5:9:18]

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**New York judge convicts record pirate of larceny based upon the theft of recording artist royalties**

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A New York judge has found William Kamarra, doing business as Rota Distributing, guilty of five counts of larceny for the pirating of a copyrighted, post-1972 sound recording - the "Horizon 1" disco compilation album. This is the first time that a larceny theory of prosecution, which previously has been utilized in Florida, Illinois and California, has been successfully applied in New York State.

While the Copyright Act preempts state actions for the unauthorized duplication or sale of post-1972 recordings, the state claimed that it was seeking to protect artists from the theft of royalties contractually due upon the manufacture and sale of the recordings. Judge Yorke Linakis ruled that an artist's royalties are property rights distinguishable from the other rights flowing from copyright which are preempted. Judge Linakis also ruled that Kamarra's willful manufacture and sale of "Horizon 1"



constituted a misappropriation of the royalties due the artists whose performances were illegally duplicated.

New York State officials have expressed the view that record stores that stock or sell pirated recordings may now be charged with criminal possession of stolen property under New York's Penal Law. [Feb. 1984] [ELR 5:9:18]

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### **ASCAP and BMI local television blanket licenses are extended pending appellate ruling**

Federal District Court Judge Lee Gagliardi has signed an order permitting ASCAP and BMI to continue their local television blanket licenses through November 1, 1984 pending an appellate court ruling in Buffalo Broadcasting Company, Inc. v. American Society of Composers, Authors and Publishers (ELR 4:19:2; 4:9:1). Judge

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Gagliardi's original order ending the licenses was to have taken effect on February 1, 1984. [Feb. 1984] [ELR 5:9:19]

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## WASHINGTON MONITOR

### **Federal Communications Commission proposes to repeal regional concentration rule**

The FCC has proposed to repeal its "regional concentration" rule which bars a broadcaster from operating, controlling or owning three AM radio, FM radio or television stations if any two stations are located within 100 miles of the third station or if any of the stations' areas of service overlap.

The Commission stated that the 1977 rule may have had the effect of inhibiting the improvement of existing

facilities, and of hindering the production of new programming. A major factor in the proposed repeal, on which public comment is being sought, is increased competition in broadcasting because of cable television, MDS and STV, making it far less likely that any single broadcaster could control a region's airwaves.

The FCC also has under consideration an earlier proposal to eliminate or modify its "seven station" rule which prohibits ownership by one party of more than seven AM, seven FM and seven television stations (ELR 5:6:20). Also still pending before the FCC is a 1982 proposal to drop its cross-ownership rule prohibiting the three major television networks from owning cable-TV systems.

Should the FCC eventually repeal all of its rules concerning ownership concentration, responsibility for preventing media monopolies would be left in the hands of

the Justice Department and private litigants under the antitrust laws. [Feb. 1984] [ELR 5:9:19]

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### **Federal Trade Commission begins investigation of professional football's collegiate eligibility rule**

The Federal Trade Commission has begun an investigation into professional football's "four-year rule" which denies college players the opportunity to pursue professional careers until their collegiate eligibility has ended. The FTC will attempt to determine whether there is any justification for the rule, which may have served to reduce competition between the leagues for players while guaranteeing that colleges and universities would not prematurely lose star players (and the revenue they often generate for school athletic programs).

It has been suggested that the inquiry may be motivated by the case of Herschel Walker. Walker, a University of Georgia running back, signed with the New Jersey Generals of the USFL after his junior year. The USFL made a highly-publicized exception to its eligibility rule for Walker. In another case, Bob Boris, a University of Arizona punter who left school without graduating, sued the USFL, arguing that under the four-year rule he had been denied the opportunity to freely negotiate a contract, and that his professional career therefore was jeopardized.

The eligibility rule is similar in its effect to those in basketball and hockey that have been struck down by the courts, on the grounds they violated antitrust laws, in the cases of *Denver Rockets v. All-pro Management, Inc.*, 325 F.Supp. 1049 (C.D.Cal. 197 1), and *Linseman v. World Hockey Association*, 439 F.Supp. 1315 (D.Conn. 1977). [Feb. 1984] [ELR 5:9:19]

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**DEPARTMENTS**

**Book Notes:**

**"Pay Television - A Primary and Secondary Market: Dynamics of Production and Distribution Arrangements"**

A late but none the less laudatory mention should be made of the syllabus on "Pay Television - a Primary and Secondary Market: Dynamics of Production and Distribution Arrangements," which was compiled under the sponsorship of the Entertainment Law Institute of the Law Center of the University of Southern California and The Beverly Hills Bar Association. The syllabus, edited by attorneys Harold A. Brown, Shelley E. Kates, and

Jeffrey S. Robin, was prepared in connection with the Twenty-Ninth Annual Program on Legal Aspects of the Entertainment Industry - The Vic Netterville Memorial Lectures.

The program was held on April 16, 1983. The speakers, including Richard Lyness, Andrew Wald, Ben Begun, Alan Latman, Nick Counter, Roger Davis and Lee Rich, presented a wide ranging perspective on developments in pay television. Among the topics covered were: the production of original programs for pay television as a primary market, distribution arrangements for pay television as a secondary market, music considerations, the impact of guild agreements and structuring talent agreements.

For information about obtaining copies of the syllabus, contact Ami Silverman at USC's Advanced Professional Program. Phone (213) 743-2582. [ELR 5:9:20]

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**"Fear of Filing: A Beginner's Guide to Tax Preparation and Record Keeping for Artists, Performers, Writers and Freelance Professionals"**

This is the fourth edition of *Fear of Filing*, a practical volume published under the banner of the Volunteer Lawyers for the Arts. The 1984 edition was edited by Theodore W. Striggles and Barbara Sieck Taylor and is almost twice the size of its predecessors. The book includes discussions of grant income, unemployment compensation, freelance income, and deductible expenses especially relevant to artists. Also included are explanations of income averaging, the tax consequences of forming partnerships and corporations, as well as suggestions for responding to IRS audits and for keeping proper records.



The book is available in book stores or may be ordered directly from Volunteer Lawyers for the Arts, 1560 Broadway, Suite 71 1, New York, N.Y. 10036; phone (212) 575-1150. Published by Dodd, Mead & Company, its cost is \$12.95 (plus an additional \$2 for postage and handling when ordered directly from the VLA). [ELR 5:9:20]

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### **In the Law Reviews:**

The Tennessee Bar Association, 3622 West End Avenue, Nashville, Tennessee 37205, has published the Journal of Copyright, Entertainment and Sports Law which contains the following:

Works Made for Hire in Sound Recordings Under the Copyright Act of 1976 by Christian A. Horsnell, 2

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Journal of Copyright, Entertainment and Sports Law 61  
(1983)

Striking Similarity and the Attempt to Prove Access and Copying in Music Plagiarism Cases by Robert C. Osterberg, 2 Journal of Copyright, Entertainment and Sports Law 85 (1983)

Bankruptcy and Executory Contracts in the Entertainment Business by William L. Warren, 2 Journal of Copyright, Entertainment and Sports Law 105 (1983)

Columbia University School of Law and Volunteer Lawyers for the Arts have published the following articles in Art & the Law. It is available from the Subscription Office, 1560 Broadway, New York, NY 10036

Problems of the "Domaine Public Payant" by Carlos Mouchet, 8 Art & the Law 137 (1983)

How to Get and Keep a Trademark by William M. Borchart, 8 Art& the Law 161 (1983)

The Fiduciary Duties of Museum Trustees by Patty Gerstenblith, 8 Art & the Law 175 (1983)

Buffalo Broadcasting: Expensive Music for Expensive Customers by Laura A. DeFelice, 8 Art & the Law 207 (1983)

Buffalo Broadcasting: A Critique by Andrew D. Fried, 8 Art & the Law 231 (1983)

VLA Perspectives, 8 Art& the Law 247 (1983)

Copyright Revision Revisited: Commissioned Works as Works Made for Hire under the United States Copyright Act by Richard Colby, 5 Whittier Law Review 491 (1983)

Group Defamation and Individual Actions: A New Look at an Old Rule by Ellyn Tracy Marcus, 71 California Law Review 1532 (1983)

Fame and Notoriety in Defamation Litigation by James Corbelli, The Hastings Law Journal 809 (March 1983)

Recognition of the National Football League as a Single Entity under Section 1 of the Sherman Act: Implications of the Consumer Welfare Model by Myron C. Grauer, 82 Michigan Law Review 1 (1983)

Marketing of Musical Performance Rights and Antitrust: The Clash Continues by Burt A. Leete, 21 American Business Law Journal 335 (1983) (published by the Department of Economics & Business Administration, Gettysburg College, Gettysburg, PA 17325)

Publication Rights Agreements in Sensational Criminal Cases: A Response to the Problem, 68 Cornell Law Review 686 (1983)

Title Disputes in the Art Market: An Emerging Duty of Care for Art Merchants, 51 George Washington Law Review 443 (1983)  
[ELR 5:9:21]