LEGAL AFFAIRS

Taxation of the International Co-Production

by Schuyler Moore and Sheri Jeffrey

I. The International Co-Production

Film producers (both U.S. and foreign) are shifting away from traditional presale financing and are focusing on international co-productions as a significant source for financing theatrical and television films. The majority of the European countries, as well as Canada and Australia, have co-production treaties relating to financing and producing films. For example, the U.K. currently has five co-production treaties with France, Germany, Norway, Canada, and Italy. Certain Eastern

European countries have developed one type of co-production where facilities such as studios, scenery, staff, etc., are provided in order to obtain foreign currency. Satisfaction of the requirements of an international co-production can yield significant financing benefits, including subsidies, television quota benefits, tax benefits, and certain in-kind investments.

The economic deals between co-producers vary in structure from simple agreements to divide territories to complex agreements to split worldwide profits based on agreed formulas. Often, the co-production treaties require these agreements to specify certain terms, including the co-producers' financial interest in the film, a detailed apportionment of the receipts from exploitation of the film, and the financial liability of the co-producers in certain circumstances.

The purpose of this article is to outline various U.S. and foreign tax issues which arise upon entering into an

international co- production. An understanding of these issues will help co-producers maintain the economic benefits of the international co-production rather than have the benefits swallowed by increased tax costs.

II. Classification of the International Co-Production for Tax Purposes

A. U.S. Tax Classification

1. Status of International Co-Production under Foreign Law

The fact that international co-production agreement provides that the agreement is governed by foreign law and that nothing contained therein is deemed to constitute a joint venture or partnership between the parties is not determinative of its status for U.S. tax purposes even

if under foreign law it is not viewed as a separate entity.n1 The Internal Revenue Code (the "Code"), rather than either foreign law or labels given by the parties, establishes the standards to be applied in determining the classification of an organization. Foreign law can, however, govern in determining whether the legal relationships which have been established in the formation of an organization are such that the standards established by the Code are met.

2. Loan or Presale Classification

Certain international co-productions may be viewed as loans by U.S. taxing authorities. Courts will look to factors such as whether the co-producer's production financing has a fixed repayment date, whether it is secured, whether it is subordinated to other debts, whether the co- producer's return depends solely on

profits, and whether an outside lender would loan money on similar terms under similar circumstances in determining whether a loan exists.n2

The Internal Revenue Service will likely not classify as a loan any international co- production which provides the co-producer with a share of profits from exploitation of the film in exchange for its contribution of a portion of the production financing.n3 Moreover, co-producers will be hard pressed to assert that any international co-production that grants a share of world-wide profits from exploitation of the film to the co-producers and that provides for active participation in the production and distribution of the film by the co-producers is merely a presale of film rights.

3. Partnership Classification

A partnership is defined in Code section 7701(a)(2) to include a syndicate, group, pool, joint venture or other unincorporated organization, through or by means of which any business, financial operation or venture is carried on, and which is not a trust, estate or a corporation. Factors indicating that the co-producers have joined together in a partnership include their sharing of profits and losses, their contribution of money, property or services to the project, and the sharing of project management.n4 The expressed intention of the co-producers to produce and own the film together in an international co-production agreement and to share profits and losses is highly significant. An international co-production may be classified as a partnership for U.S. tax purposes regardless of its classification under foreign law and the labels placed upon the agreement by the parties.

A typical international co-production involving the co-producers sharing in, or recouping from, world-wide profits will probably be classified as a separate entity owned by the co-producers. For U.S. tax purposes, the entity will most likely be classified as a partnership (referred to herein as an "international co-production partnership"), rather than as a corporation, as discussed below.

4. Corporation Classification

An organization is treated for U.S. tax purposes as a corporation if it has three or more of the following four characteristics: (i) centralization of management; (ii) continuity of life; (iii) free transferability of interests; and (iv) limited liability. The typical international co-production generally will not be classified as a corporation for U.S. tax purposes because limited liability and

centralization of management will not exist. However, to the extent that an international co-production is classified as a corporation for U.S. tax purposes, the implication of a variety of U.S. tax provisions must be considered, such as Subpart F, the foreign personal holding company provisions, the passive foreign investment company provisions, and the accumulated earnings tax.n5

B. Foreign Tax Classification

International co-productions are generally deemed to be partnerships under foreign tax law. For example, in the U.K., co-productions usually are treated as partnerships for U.K. tax purposes with the result that a non-U.K. co-producer may be subject to U.K. taxation on profits from exploitation of the film if either co- producer is undertaking significant business activities in the

U.K., such as soliciting, negotiating, and executing distribution agreements for the film. As discussed below, a U.S. co-producer will be entitled to a credit for the U.K. taxes paid against its U.S. tax liability. However, this is not an entirely satisfactory result for the U.S. co-producer for several reasons, including the fact that the U.K. corporate tax rate is slightly higher than the U.S. corporate tax rate and, accordingly, the U.S. co-producer will have an increased tax cost.

III. Tax Consequences

A. U.S. Taxation of Partnership

For U.S. tax purposes, a partnership is not a tax-paying entity. Income, gains, deductions and credits of the partnership are passed through to the partners. Accordingly,

the international co-production partnership will not be subject to U.S. tax.

B. U.S. Taxation of Partners

1. Contributions of Property and Services

Except as discussed below, contributions of property to the international co-productions partnership in exchange for an interest in the international co-production partnership generally will not result in the recognition of gain or loss by the co-producer.n6 Thus, contributions of production financing or film rights will generally not have any U.S. tax impact. However, Code section 1491 imposes a 35% excise tax on transfers of appreciated property by U.S. taxpayers to "foreign partnerships", which are defined as partnerships that are not created or organized under U.S. law.n7 One way to avoid the

excise tax is to elect to apply the principles of section 367,n8 which generally requires the U.S. taxpayer to recognize income in an amount "commensurate with the income" earned by the foreign partnership from the property transferred. Because a deemed partnership caused by an international co-production is not "organized or created" under any law, it would probably be a "foreign partnership" for purposes of section 1491. Thus, if a U.S. co-producer is transferring film rights or other property, it should make the election to apply the principles of section 367.n9

A contribution of services by a U.S. co-producer (or a foreign co-producer if the services are rendered in the U.S.) to the international co-production partnership in exchange for an interest in partnership capital will result in the receipt of ordinary income to such co-producer.

2. Allocation of Partnership Income

In general, each partner's distributive share of partnership income, gain, deduction or credit is allocated in accordance with the partnership agreement. Allocations contained in the partnership agreement are subject to Code section 704(b), which provides that if any allocation of an item of income, gain, loss, deduction or credit to a partner does not have substantial economic effect, then the partner's allocable share of that item shall be determined in accordance with the partner's "interest in the partnership". The character and source of partnership income, gain, deductions, and credits are passed through to the partners as if such items were realized directly from the source from which they were realized by the partnership.

Typically, international co-production agreements provide for a percentage distribution of income (gross or net) from exploitation of the film to the co-producers, in

addition to provisions providing for recoupment of each partner's investment before the income is split in accordance with the percentage allocations. Cross-collateralization provisions are also common whereby each partner is distributed proceeds from the other partner's territory until such time as all of the partners have fully recouped their original investments. These contractual distribution provisions establish the partners' "interests in the partnership" and will thus ultimately determine the allocations of taxable income and loss under Code section 704(b).n10

3. Taxation of Partnership Income

In general, partners are taxed individually on their respective shares of the partnership's income regardless of whether such income is actually distributed by the partnership to the partners. A U.S. co-producer's share of

partnership income will be subject to U.S. income tax, currently imposed at a maximum effective rate of 34% (in the case of corporation) or 28% (in the case of an individual).

A foreign co-producer will be considered engaged in a U.S. trade or business if the international co-production partnership is so engaged through either partner.n11 Whether an entity is engaged in a U.S. trade or business is a question of fact dependent upon the nature and extent of the U.S. activities. The Internal Revenue Service takes the position that any activities beyond the mere receipt of income from property and the payment of incidental organizational and administrative expenses constitutes a U.S. trade or business. As a general rule, if either one of the partners solicits, negotiates, or executes contracts relating to the film in the U.S, then such activities will constitute a U.S. trade or business of both partners. Likewise, undertaking production of films in the

U.S. will likely constitute a U.S. trade or business of both partners.

A foreign partner is taxable in the U.S. at the normal graduated tax rates on partnership income that is "effectively connected" with a U.S. trade or business and at a flat rate of 30% on non-effectively connected royalties. An income tax treaty may apply to reduce or eliminate these taxes (discussed below). The determination of whether income is "effectively connected" with a U.S. trade or business depends on whether the income is U.S. source or foreign source. U.S. source income is effectively connected with a U.S. trade or business if the income is generally related to the U.S. trade or business. Foreign source income is effectively connected with a U.S. trade or business if the income is attributable to a sale or license that was negotiated or solicited from an office in the U.S.n12

If neither of the co-producers are engaged in a U.S. trade or business, then the foreign co-producer's distributive share of royalties from the U.S. will be U.S. source non-effectively connected income subject to the flat 30% tax unless an income tax treaty applies to alter this result, as discussed below.

4. Distribution Fees

International co-productions often provide that distribution fees are payable to the co-producers for undertaking various distribution tasks. For example, co-producers may be entitled to a percentage of the revenues from any distribution contracts which they secure in certain specified territories. Payments for such services performed for the international co-production partnership by the partners may be taxed in the U.S. in the same manner discussed above in connection with

revenues from exploitation of the film.(13) However, if such payments are treated as compensation paid to a nonpartner for U.S. tax purposes,(14) then a foreign co-producer would be taxed on the payments in the U.S. at the normal graduated rates only if the services are performed in the U.S.

5. Application of Income Tax Treaties

The U.S. has entered into approximately forty income tax treaties with various countries to provide for reduced rates of U.S. taxation and in certain cases to eliminate U.S. taxation entirely. Income tax treaties contain two articles that will be of primary importance to the international co-production, namely, the business profits article and the royalties article.n15

The business profits article generally provides that the business profits of an "enterprise" of one country are

taxable only in that country unless the enterprise carries on business in the other country through a "permanent establishment" situated therein. It appears that the proper interpretation of the business profits provision is to look through to the partners in determining if they are an "enterprise" of one country or the other, but to look to the activities of the partnership itself, through the activities of both partners, to determine if a permanent establishment exists. A production in the U.S. for less than twelve months is not viewed as a permanent establishment under most income tax treaties.n16

If the international co-production partnership does not engage in U.S. activities through its partners to the extent a permanent establishment is found to exist, then the royalties article of the income tax treaty may apply to either reduce or eliminate the U.S. tax applicable to the foreign partner's distributive share of U.S. source royalties generated by the film. It appears that the proper

interpretation of the royalties provision is to look through the partnership to the residence of its partners in determining whether the treaty applies.n17

6. Foreign Tax Credits

Each co-producer generally will be entitled to a credit for foreign taxes paid on its share of foreign source income from exploitation of the film against any U.S. tax liability on the same income.(18) Withholding taxes imposed on royalty payments received by either co-producer should be deemed paid by the international co-production partnership and reallocated among the co-producers in accordance with their "interests in the partnership" pursuant to the regulations under Code section 704(b). This will result in the co-producers sharing such withholding taxes in the ratio that they share the underlying revenues that were withheld on.

C. Copyright Ownership

Often, the copyright ownership with respect to certain territories must be transferred to one co-producer. In other instances, the entire world-wide copyright must be transferred for a certain period of time to one co-producer. Such transfers may subject a U.S. co-producer to U.S. tax on gains.

D. Specific Provisions Applicable to Foreign Partners

1. Code Section 1446

Code section 1446 requires a partnership engaged in a U.S. trade or business to pay quarterly estimated tax payments at the maximum U.S. tax rate on effectively connected income allocated to a foreign partner.(19) The U.S. estimated tax rules generally apply for

purposes of Code section 1446. Revenue Procedure 89-31 outlines the procedures and reporting requirements.n20 Each-foreign partner will treat its share of the tax paid by the partnership as a credit against its U.S. tax liability.

An international co-production partnership will be required to comply with the requirements of Code section 1446 if it is engaged in a U.S. trade or business. This means that the international co-production partnership would be obligated to pay quarterly estimated tax payments on behalf of any foreign co-producer, and both co-producers would be liable for this obligation.

2. Estate Tax

The gross estate of a foreign individual includes property situated in the U.S. at the time of the individual's death. Property situated in the U.S. probably includes an

interest in an international co-production partnership if the international co-production partnership is engaged in a U.S. trade or business.n21

3. Branch Profits Tax

Pursuant to Code section 884(a), foreign corporations engaged in a U.S. trade or business (including through partnerships) are subject to the branch profits tax on effectively connected income, in addition to U.S. income tax.n22

The branch profits tax equals 30% of a foreign corporation's "dividend equivalent amount" for the taxable year. The dividend equivalent amount is the after-tax earnings of a foreign corporation's U.S. trade or business that are not reinvested in the U.S. by the close of the taxable year or that are disinvested in a later taxable year. Without careful planning, the economic incentives

to a foreign co-producer of entering into the international co-production can be wiped out by the combined effect of U.S. income tax and the branch profits tax.

Additionally, pursuant to Code section 884(f)(1)(a), interest paid by a partnership of which a foreign corporation is a partner may be treated as if it were paid by a domestic corporation. Accordingly, interest payments may be subject to a 30% flat tax. The amount of interest paid is basically determined by looking to how the foreign corporation books the underlying liability on its accounting books and records, with special rules that can override this general rule. Therefore, the production financing aspects of the international co-production must be reviewed with a view to structure these arrangements to avoid this tax.

E. Reporting Requirements

If either co-producer engages in any business relating to the co-production in the U.S., the international co-production partnership will be required to file a U.S. information return, Form 1065, and provide each partner with a copy of such return. A foreign co-producer that is part of such a co-production will be required to obtain a taxpayer identification number and file a U.S. tax return.

It should be noted that as a prerequisite to the allowance of deductions and credits for U.S. tax purposes, a foreign taxpayer must file a U.S. tax return on a timely basis. This requirement includes the partnership information return.n23 If the international co-production partnership fails to file its U.S. return, the deductions and credits normally allowed to the foreign co-producer will be disallowed.

The Internal Revenue Service has issued proposed regulations stating that any taxpayer who takes a position that an income tax treaty overrules, or otherwise

modifies, U.S. tax law and thereby effects a reduction of any tax incurred at any time, must generally disclose such position on a U.S. tax return, even if a U.S. tax return would not otherwise be required of the taxpayer.n24 Failure to file any U.S. tax return will result in the imposition of penalties as high as $10,000 for each position the taxpayer has failed to disclose.

Additional reporting may be required of the international co-production partnership and the foreign co-producer, such as reports on foreign investment required by the Department of Commerce.

F. State Taxation

State tax provisions similar to the U.S. provisions discussed above may apply to the international co-production partnership and its partners. For example, California incorporates provisions similar to those

discussed above with respect to the U.S. taxation of partnerships. Accordingly, all partners may be subject to another level of taxation on all or a portion of the revenues from exploitation of the film.

G. Foreign Taxation

1. Income Taxation

As noted above, foreign countries typically treat international co-productions as partnerships for purposes of their internal tax laws, and most foreign countries impose taxation in a manner very similar to U.S. taxation principles, discussed above. Thus, each co-producer may be subject to additional income taxation in the jurisdiction of the other co-producer.

2. Value-Added Tax

Many European countries impose a value-added tax, which is basically a sales tax enforced through withholding. In the case of a film shot in a country that imposes value-added tax, all the costs of production will be subject to value-added tax withholding. The international co-production partnership may be able to obtain a refund of the value-added tax upon completion of the film by treating the film as "export property". Otherwise, the value-added tax may be refunded out of the proceeds of distribution of the film in that country.

H. Wage Withholding

The international co-production partnership will probably be treated as the employer of all personnel hired by either co-producer, and thus both co-producers will be liable for the partnership's wage withholding obligations. Many treaties provide limited exemptions from wage

withholding for foreign persons that are employed by a non-resident employer. A partnership engaged in a U.S. trade or business is considered a U.S. resident partnership for U.S. tax purposes.n25 Whether a partnership is a U.S. resident or nonresident is not determined by the nationality or residence of its members or by the place in which it was created or organized.n26 Since an international co-production partnership is generally deemed resident wherever it engages in business, payments by it may not qualify for the exemption from wage withholding under the treaties.

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NOTES

1. Reg. Sec. 301.7701-1(c); Rev. Rul. 73-254, 1973-1 C.B. 613.

2. See, Hambuechen v. Commissioner., 43 T.C. 90 (1964).

3. Rev. Rul. 83-51, 1983-1 C.B. 48.

4. Commissioner v. Culbertson, 337 U.S. 733 (1949).

5. See, Schuyler Moore, "The Filmed Entertainment Industry", volume B5 of the CCH Tax Transactions Library, Chapter 4. (Hereinafter cited as Moore, "The Filmed Entertainment Industry".)

6. I.R.C. Sec. 721.

7. I.R.C. Sec. 7701(a)(5).

8. I.R.C. Sec. 1492.

9. Moore,"The Filmed Entertainment Industry", Para 403.02.

10. Schuyler Moore, "Guidelines for Coping with the Final Section 704(b) Regulations", Journal of Taxation of Investments, Summer, 1986.

11. I.R.C. Sec. 875(1); U.S. v. Balanovski, 131 F. Supp. 898, 55-1 USTC Para 9302 (S.D.N.Y. 1955).

12. I.R.C. Sec. 864(c).

13. I.R.C. Sec. 707(c).

14. I.R.C. Sec. 707(a).

15. Moore, "The Filmed Entertainment Industry", Para 405.

16. See eg.,U.S.-U.K.Income Tax Treaty, art. 5(3)(f).

17. Example V of the Letter of Understanding under the new U.S.-German Income Tax Treaty.

18. Schuyler Moore, "Taxation of U.S. Owned Foreign Corporations", The Journal of Corporate Taxation, Winter, 1988.

19. Schuyler Moore and Sheri Jeffrey, "Taxation of Foreign Investment in the United States Through a U.S. or Foreign Corporation", The Journal of Corporate Taxation, Autumn, 1989.

20. 1989-20 I.R.B. 1.

21. Rev.Rul. 55-701, 1955-2 C.B. 836.

22. See Moore and Jeffrey, footnote 19.

23. I.R.C. Secs. 874, 882(C)(2) and 6231(f).

24. Prop.Reg.Secs. 301.6114-IT and 301.6712- IT.

25. Reg.Sec. 1.861-2(a)(2)(iv).

26. Reg.Sec. 301.7701-5.

[ELR 11:9:3]

RECENT CASES

Paramount Pictures' Rim "Coming to America" is based upon treatment written by Art Buchwald, rules Los Angeles trial court

In early 1982, as recently described by Judge Harvey A. Schneider, Art Buchwald wrote an eight page screen treatment entitled "It's a Crude, Crude World." Buchwald originally based the principal character of the treatment on the Shah of Iran, but subsequently changed the character to a black man. The treatment was registered with the Writers Guild.

Later in 1982, Alain Bernheim, a friend of Buchwald, met with Jeff Katzenberg, the head of motion picture production at Paramount Pictures Corporation. Katzenberg read the treatment and expressed interest in the project. In early 1983, Paramount registered the new

title of the treatment, "King for a Day," with the Motion Picture Association of America. In February 1983, Paramount agreed that if the company acquired Buchwald's story idea, Bernheim would be entitled to produce and to receive certain payments from the studio. And in March 1983, Paramount purchased the rights to Buchwald's story and concept.

According to Judge Schneider, various studio documents prepared in 1983 indicated that the "King for a Day" project was being developed for Eddie Murphy, who was then under contract to Paramount. In a letter to director John Landis, a studio executive described the treatment as "high-style political satire inspired by Art Buchwald. The movie is intended for Eddie Murphy, who is familiar with the idea and likes it very much..."

During 1983, Paramount continued working on a script, and paid Buchwald $2500 to extend the studio's option on "King for a Day." In March 1984 and October

1984, the studio exercised its second and third options, respectively, on Buchwald's work.

In March 1985, Paramount sent a copy of the "King for a Day" script, written by Francis Veber, to representatives of Eddie Murphy. However in a May 1985 report identifying the "state of potential Eddie Murphy projects," the "King for a Day" project was listed as "in abeyance/on hold."

In May 1986, Buchwald optioned the "King for a Day" treatment to Warner Brothers; Bernheim entered into an agreement with Warner Brothers on the same project.

Paramount, in the summer of 1987, began the development of a property called "The Quest," based on a story by Eddie Murphy. The property, renamed "Coming to America," featured Murphy in the role of a black prince who comes to America to find a wife. The screenplay credit for the film was given to David Scheffield and

Barry Blaustein; Eddie Murphy received the story credit.

Warner Brothers canceled its "King for a Day" project in January 1988; a studio executive stated that the cancellation, at least in part, was due to Paramount's production of "Coming to America."

Judge Schneider began his discussion of Buchwald's breach of contract claim against Paramount by observing that Buchwald transferred to Paramount "the sole and exclusive motion picture and other rights" to the "original story and concept written by Art Buchwald ... tentatively entitled "KING FOR A DAY," also known as "It's a Crude, Crude World..." Buchwald warranted that the work was original, and the contract further provided, as set forth by the court, that: "'Work' means the aforementioned Material and includes all prior, present and future versions, adaptations and translations thereof (whether written by Author or by others), its theme, story, plot,

characters and their names, its title or titles and subtitles, if any..., and each and every pan of all thereof. 'Work' does not include the material referred to in paragraph 2(f) above, written or prepared by Purchaser or under Purchaser's Authority."

The contract entitled Buchwald to certain "contingent consideration" "[f]or the first theatrical motion picture (the Picture): If, but only if, a feature length theatrical motion picture shall be produced based upon Author's work." (Emphasis added by the court.)

Judge Schneider found the testimony of entertainment experts to be "of little value" with respect to the "based upon" issue, and, although noting that the instant case was not an infringement case, proceeded to discuss the issues of access and similarity. The evidence indicated to the court that Murphy had access to Buchwald's concept.

Upon turning to the issue of similarity, Judge Schneider declined to rely on several cases cited by Paramount because the cases did not involve express contracts with language similar to the language in the Buchwald-Paramount contract. Rather, the court, relying on the contract and on the decisions in the cases of Fink v. Goodson-Todman Enterprises, Ltd., 9 Cal.App.3d 996 (1970) and Weitzenkorn v. Lesser, 40 Cal.2d 778, concluded that Paramount's obligation to pay Buchwald arose if "Coming to America" was "based upon a material element of or was inspired by Buchwald's treatment."

Judge Schneider next compared Buchwald's treatment and "Coming to America" and stated that while there were differences between the works, less similarity would be required to find liability due to the "overwhelming" evidence of access. Furthermore, the similarities cited by Buchwald might have been sufficient in

themselves to hold Paramount liable, given the language of the contract and the law that liability in a contract case can arise even if a non-substantial element is copied.

However, Judge Schneider proceeded to note other "compelling" evidence of similarity, such as certain "gimmicks" in "Coming to America" which apparently appeared in a script that was "indisputably" based upon Buchwald's treatment. The court also found it significant that for two years Paramount considered "King for a Day" to be a project that was being developed for Eddie Murphy; that during the development of "King for a Day," it was expected that Murphy would portray multiple characters, and in "Coming to America," he did, and that during the development period, Paramount sought to interest John Landis in directing the movie - Landis eventually directed "Coming to America." Judge Schneider stated that it was important that Landis was aware of

Buchwald's concept for "King for a Day," because of Landis' creative input into "Coming to America."

The differences between the works were not sufficiently significant to require a finding that "Coming to America" was not "based upon" Buchwald's work, concluded Judge Schneider who emphasized that it was Paramount and not Eddie Murphy who prepared the contract in issue, and Paramount and not Murphy "that obligated itself to compensate Buchwald if any material element of Buchwald's treatment was utilized in or inspired a film produced by Paramount." For the court, "Coming to America" was "no less the product of Eddie Murphy's creativity because of the Court's decision than it was before this decision was rendered. "

Judge Schneider declined to find, as argued by Paramount, that Buchwald's treatment was not original and that it was based on a 1950s Charlie Chaplin film entitled "A King in New York."

Buchwald's tort claims - bad faith denial of contract liability, tortious breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, fraudulent concealment by a fiduciary and constructive trust - were rejected. Judge Schneider did not find that -Paramount's conduct was in bad faith, "let alone fraudulent, oppressive or malicious."

Buchwald v. Paramount Pictures Corporation, Case No. C706083 (Los Angeles Cnty., Jan. 8, 1990) [ELR 11:9:9]

Copyright infringement claim against Richard Pryor, Eddie Murphy and Paramount Pictures involving "Coming to America" is dismissed by Federal District Court in Tennessee

In a proceeding in a Federal District Court in Tennessee, Laurence Armour claimed that the film "Coming to America" was an adaptation of his copyrighted script entitled "The Cannibal."

Armour alleged that in December 1986, he sent a copy of his script about an African prince who travels to America and finds a wife to marry, to Indigo Productions, a production company purportedly controlled by Richard Pryor; the material, unread, was returned to Armour.

The court granted summary judgment to Pryor, Eddie Murphy and Paramount Pictures dismissing Armour's copyright infringement claim on the ground that Armour did not show that the Paramount parties had access to his work. In the absence of direct evidence of copying, Armour was required to show both access and substantial similarity - "bare corporate receipt" was not sufficient to counter Pryor's contention that the manuscript

was unread. Armour's claim that at the time Indigo received the script, Pryor was employed by Paramount, along with Murphy, also did not establish that the Paramount parties were engaged in a scheme to copy Armour's work.

The court also dismissed Armour's fraud claim.

Armour v. Pryor, Case No.88-2800 (W.D.Tenn., July 31, 1989) [ELR 11:9:10]

Vanna White loses spin in action involving electronic company's advertisement portraying futuristic "Wheel of Fortune" set

When Samsung Electronics America published an advertisement showing a representation of the set of the television game show "Wheel of Fortune," including a

robot with blonde "hair," Vanna White sued the company alleging causes of action for the violation of section 3344 of the California Civil Code, misappropriation of the common law right of publicity, interference with prospective economic advantage and violation of the Lanham Act.

A Federal District Court in California has granted Samsung's motion for summary judgment on the first, second and fourth causes of action (Samsung's motion apparently did not address the cause of action for interference with prospective economic advantage).

Judge Ronald S.W. Lew, adopting the statements of law and the analysis set forth in Nurmi v. Peterson, 10 U.S.P.Q.2d 1775 (C.D. Ca. 1989; ELR 11:2:10), the "Vampira"/"Elvira" case, stated that no jury could reasonably conclude that the robot was an actual representation" of White, or an exact copy of White's features and not merely a suggestive resemblance. Accordingly,

Judge Lew granted summary judgment to Samsung on the section 3344 and misappropriation claims.

Furthermore, no reasonable jury could find that consumers would be confused about whether White was the maker, sponsor, or endorser of the product in the advertisement portraying the robot; the court therefore dismissed the cause of action under section 43(a) of the Lanham Act.

White's motion for reconsideration of the second and fourth causes of action was denied.

White argued that Samsung had referred to the advertisement in issue as the "`Vanna' VCR ad." Judge Lew noted that a showing of Samsung's intent to cause a viewer of an advertisement to think of a certain individual when viewing an advertisement did not entitle that individual to relief under either a common law cause of action for appropriation of name or likeness or a section 43(a) claim. Samsung did not use a photograph of

White, and White did not argue that people thought that the robot portrayed in the advertisement actually was Vanna White.

Judge Lew again declared that no reasonable jury could find that the advertisement was not a parody or spoof of "Wheel of Fortune," but amounted to a product endorsement by White. The court distinguished Allen v. National Video, Inc., 612 F.Supp. 612 (S.D.N.Y. 1985; ELR 7:5:7) because the advertisement in Allen featured a Woody Allen look-alike; in the instant matter, the robot clearly was a mechanical figure, and did not resemble a person.

White v. Samsung Electronics America, Inc., Case No. CV 88-6499 (C.D. Ca., Nov. 9, 1989; Dec. 21, 1989) [ELR 11:9:10]

NBC employee's state court claims concerning "The Cosby Show" are barred by prior litigation

After a series of proceedings (see ELR 9:10:4; 10:7:8), a Federal Court of Appeals affirmed a decision granting summary judgment to the National Broadcasting Company in an action in which Hwesu S. Murray claimed that the television series "The Cosby Show" was based on an idea that Murray submitted to NBC.

Murray subsequently sued NBC in a New York trial court, again alleging that NBC based "The Cosby Show" on his proposal entitled "Father's Day," and claiming misappropriation, conversion, breach of implied contract, unjust enrichment, fraud, breach of duty of care, unfair competition, and race discrimination under the New York State Constitution. Murray sought the same relief that he sought in the federal action, as well as a declaratory judgment that his rights "encompass all

right, title and interest in and to the 'Spin-Off' of The Cosby Show, A Different World."

Federal District Court Judge Cedarbaum noted that the first five claims in the new action were the same claims previously decided by the court and thus were within the relitigation exception to the Anti-Injunction Act. Murray alleged that the new claims were based, not on the idea set forth in the "Father's Day" proposal, but in his original treatment, story, literary property, program format, narrative synopsis and literary material. Judge Cedarbaum stated that the alleged forms of property were just different terms for what the court had described as an "idea" in the opinion granting summary judgment to NBC. Murray was not entitled to circumvent a final judgment of the court by using different words to characterize the "Father's Day" proposal, stated Judge Cedarbaum, in granting an injunction to stay proceedings on the first five claims of Murray's new action.

The remaining three claims were not asserted in the federal action. However, the court had ruled that the "Father's Day" proposal was not sufficiently novel to constitute property subject to legal protection under New York law. In order to protect the collateral estoppel effect of the judgment, Murray was not entitled to relitigate the issue in state court. Accordingly, the state court proceedings were stayed with respect to the issue of whether "Father's Day" was protectible property.

Murray v. National Broadcasting Company, Inc., 718 F.Supp. 249 (S.D.N.Y. 1989) [ELR 11:9:11]

Publisher of "The Hunt for Red October" may seek relief for substantial sales of paperback edition prior to contractual publication date

The publisher of the hardcover edition of Thomas Clancy's novel "The Hunt for Red October" has resurfaced in its breach of contract and copyright infringement action against Charter Communications, Inc. and Berkley Publishing Group.

In reversing the decision of a Federal District Court (ELR 10:5:8) and remanding the matter for further proceedings, Federal Court of Appeals Judge Amalya L. Kearse noted that the contract between the United States Naval Institute and the Berkley parties provided that the date of publication of the hardcover edition of the novel would be October 1984, and that October 1985 would be the earliest permissible date for publication of the paperback edition.

"The Hunt for Red October" became a national bestseller and remained on the bestseller lists during the summer of 1985. Berkley, in order to supply retail outlets with the paperback edition of the novel no later than

October 1, 1985, accelerated its usual production schedule and arranged with its printer to have more than 1.4 million copies of the Clancy work ready for "early shipping" on August 26, 1985; the books thus were available for sale in September.

In August, the Naval Institute sought to prohibit Berkley from distributing copies of the paperback prior to October 1st. The District Court refused to grant injunctive relief, finding, as described by Judge Kearse, that the contract "did not unambiguously prohibit shipments of the paperback edition prior to October, that Berkley would suffer harm if the motion were granted, and that Naval had failed to establish irreparable injury to itself from the limited retail sales that were anticipated prior to October, even if such sales would constitute a breach of the Agreement."

By September 23rd, Berkley had distributed nearly 1.4 million copies of the paperback; bookstore customers

purchased about 400,000 paperbacks before October. Berkley's sales "cut sharply into the sales of the hardcover edition," observed Judge Kearse, for after the paperback appeared, sales of the hardcover edition declined by more than 80 percent, averaging only about 3,000 copies per month; from March to September 1985, hardcover sales had averaged about 46,000 copies per month.

Judge Kearse agreed with the District Court that the term "publish" in the parties' contract was ambiguous, and stated that the court properly admitted evidence of industry custom and practice. The District Court also did not err in rejecting the Naval Institute's argument that Berkley had no right even to ship the paperback works prior to October 1985; the court's finding that it was the industry custom and practice to ship sufficiently early so as to begin sales on the contractually specified publication date was not clearly erroneous, and it was

not error to impute knowledge of that custom and practice to the Naval Institute.

However, although pre-October shipping may have been permissible, this did not mean that the Naval Institute agreed to allow "voluminous" pre-October sales of the paperback edition. For Judge Kearse, the phrase "not sooner than" imposed a limitation on Berkley. Berkley, stated the court, knew that the Naval Institute intended to prohibit sales of "The Hunt for Red October" during the one-year period when the hardcover edition was distributed, particularly sales which would result in the paperback edition becoming a bestseller weeks in advance of the earliest permissible date of publication.

Judge Kearse, in finding that the Naval Institute was entitled to judgment against Berkley, also observed that Berkley could have notified retailers that the paperback edition was not to be placed on sale prior to October 1st.

United States Naval Institute v. Charter Communications, Inc., 875 F.2d 1044 (2d Cir. 1989) [ELR 11:9:12]

"Saturday Night Live" and "Off the Wall" programs did not infringe copyrighted scripts, but question of fact as to substantial similarity of skits involving gangster character precluded summary judgment on this claim

The television programs "Saturday Night Live" and "Off the Wall" did not infringe material copyrighted by writers E.J. Novak and Debra Studer, a Federal District Court in New York has ruled. However, the court refused to grant summary judgment to the comedy program parties with respect to one of the skits in issue, finding that a material question of fact was raised as to

the substantial similarity between the writers' portrayal of an interview with a gangster and a "Saturday Night Live" segment featuring Don Novello as "Mr. X."

Federal District Court Judge Sweet first limited the writers' claims to the material contained in the copyrighted scripts of certain "Video Vault" skits; the claim did not extend to the uncopyrighted performances of such skits, declared the court.

The writers' skits presented "interviews" conducted by television personality Joe Franklin with Attila the Hun, the Frankenstein monster, "Yucky" Luciano, and a fictional "Fifth Beatle" - characters who either were historical or fictional figures or were "merely a generalized idea." After comparing the writers' skits with the allegedly infringing "Saturday Night Live" pieces, Judge Sweet observed that the two Attila the Hun skits had nothing in common other than the idea of Attila. And the overall feel of the segments containing the Frankenstein

character was different, as was " the management of elements, use of characters, and selection." Furthermore, noted Judge Sweet, "Any similarity in the portrayal of the characters, their mannerisms, simplistic dialogue, costumes, and the like is scenes a faire."

The "Fifth Beatle" skit written by Novak and Studer was not sufficiently similar to an "Off the Wall" segment to create a factual issue, found the court, noting that any similarities in the characters' clothing and attitude were part of a "Beatles scenes a faire."

The writers had their gangster, who supposedly appeared on the show to deny the existence of organized crime, machine-gunned to death because the camera superimposed a mask over the interviewer, rather than the gangster. The "Saturday Night Live" interview presented ,.an incompetent and disgruntled would-be mobster, in no need of protection, using a camera mask technique which failed to completely hide his eyes" - the character

bobbed in and out of the "mask's" protection, but the audience soon realized, according to the court, that there was no need for such a mask in the first place. Judge Sweet, while pointing out that Novak and Studer were not entitled to appropriate all use of the mask technique, stated that the writers raised a question of fact as to whether the use of the technique was substantially similar to the use described in the writers' script.

Novak v. National Broadcasting Company, 716 F.Supp. 745 (S.D.N.Y. 1989) [ELR 11:9:12]

"The Comic Strip" nightclubs do not obtain injunction to prevent Fox Television from broadcasting "Comic Strip Live"

A Federal District Court in New York has denied a motion for injunctive relief sought by the owners of several nightclubs called "The Comic Strip" in a trademark infringement action against Fox Television Stations in connection with the broadcasting of the television show "Comic Strip Live."

Judge Goettel found that Comic Strip, Inc. was likely to succeed in proving that the Comic Strip mark had acquired a secondary meaning. Furthermore, Comic Strip's mark was "at least suggestive" and thus deserved protection; the marks in issue were virtually identical, creating " the very likely possibility of confusion in the marketplace; and consumers might mistakenly assume that Fox's "Comic Strip Live" program was a production from "The Comic Strip" nightclub. Comic Strip, Inc. asserted that it was formulating a television program, and presented evidence of actual consumer confusion. In all, the court found that there was a likelihood of confusion

between the parties' products. Notwithstanding the above, Judge Goettel refused to grant the requested injunctive relief. It was noted that the nightclub parties delayed for several months before seeking relief, and that the nightclubs' failure to show that they had lost revenue as a result of the alleged infringement also precluded a finding that irreparable harm might occur during the pendency of the lawsuit. Furthermore, observed Judge Goettel, Fox might incur "great loss" if the company had to discontinue or alter its existing television programming.

Comic Strip, Inc. v. Fox Television Stations, Inc., 710 F.Supp. 976 (S.D.N.Y. 1989) [ELR 11:9:13]

Andy Rooney prevails in defamation action prompted by statements concerning effectiveness of car care product

During the April 17, 1988 broadcast of the CBS program "60 Minutes, " commentator Andy Rooney discussed a product called Rain-X. Rain- X, manufactured by Unelko Corporation, is applied to car windshields and is designed to improve visibility in bad weather by repelling rain, snow and sleet. After briefly describing his attempt to use the product, Rooney stated "It didn't work."

A Federal District Court in Arizona has granted summary judgment to Rooney in Unelko's action alleging defamation, product disparagement and tortious interference with business relationships. The court, after finding that Unelko did not raise a genuine issue of fact as to whether or not Rooney used Rain-X on his car, held that

Rooney's statements, during the April 17th program and in a follow-up piece broadcast on May 8, 1988, constituted protected expressions of opinion.

Judge Broomfield found it significant that Andy Rooney does not appear on any of the "60 Minutes" regular news reports or features. Rather, the segment of the show entitled "A Few Minutes with Andy Rooney," presents Rooney's "insights, observations, experiences and opinions on a host of topics ranging from life in general to everyday common occurrences and events." Rooney's viewers are unlikely to take his comments as seriously as statements reported in a newspaper or news program focusing on factual news stories, stated the court.

Furthermore, the context of Rooney's statements clearly indicated to listeners "the presence of rhetoric, ridicule, satire, sarcasm and humor." In all, the challenged statement was Rooney's expression of his opinion of Rain-X and thus was not defamatory.

Unelko's causes of action for product disparagement and tortious interference with business relationships also were rejected.

Unelko Corp. v. Rooney, 16 Med.L.Rptr. 1737 (D.Ariz. 1989) [ELR 11:9:13]

Federal Court of Appeals affirms $100 statutory damages award to Warner Bros. in "Gremlins" copyright infringement claim; reverses award granting $38,000 in attorneys' fees to alleged infringer; and upholds decision assessing Warner's attorney double costs for the appeals and damages of $1,000

"Gizmo," a character in the Warner Bros. film "Gremlins," has pursued an eventful off-screen career. In 1984, a private investigator for Warner purchased, for $15, six

plastic dolls resembling the copyrighted Gizmo character; the purchase was made at a small store in New York known as Dae Rim Trading.

As described at ELR 10:1:3, Dae Rim offered to stipulate to the granting of a permanent injunction sought by Warner and to pay statutory damages in the amount of $250. When Warner proceeded with its claim for $10,000 in damages, Federal District Court Judge Wyatt, although granting the requested injunctive relief, awarded Warner only $100 in statutory damages. Judge Wyatt's 82 page opinion repeatedly criticized Warner's "dubious" motives for the litigation, and denied the company's claim for attorneys' fees. In a subsequent ruling, Judge Wyatt awarded Dae Rim attorneys' fees in the amount of about $38,500.

A Federal Court of Appeals has determined that Judge Wyatt's criticisms of Warner's conduct were, for the most part, justified, and that the overall history of the

litigation "amply" supported the decision to award Warner only $100 in damages and to deny the company attorneys' fees. However, stated the court, Dae Rim also was not entitled to attorneys' fees.

Judge Van Graafeiland then dismissed an appeal by J. Joseph Bainton, one of Warner's attorneys, from the District Court's decision finding that Bainton violated Rule 11 of the Federal Rules of Civil Procedure. The court found that Bainton "demonstrated a blatant disregard of the rules and regulations which permit the judicial machinery to function smoothly," and imposed on the attorney alone "double costs for the appeals taken by both him and Warner and damages against Bainton alone in the sum of $1,000."

Warner Bros. Inc. v. Dae Rim Trading, Inc., 695 F.Supp. 100 (S.D.N.Y. 1988); 877 F.2d 1120 (2d Cir. 1989) [ELR 11:9:14]

Dismissal of FBI agent's libel action against author and publisher of "In the Spirit of Crazy Horse" is upheld

A Federal District Court decision (ELR 10:1:5) dismissing FBI agent David Price's $25 million libel action against Peter Matthiessen and Viking Penguin, Inc., the author and publisher of the book "In the Spirit of Crazy Horse," has been upheld.

Price challenged the book's account of his investigation of the events at Wounded Knee, South Dakota in 1973 and of the 1975 " shootout" at the nearby Pine Ridge Indian Reservation during which two FBI agents were killed. In response to Price's lawsuit, Viking withdrew the book from circulation.

Federal Court of Appeals Senior Judge Gerald W. Heaney first agreed with the District Court that Price was a public figure and that the challenged statements related to his official conduct.

Judge Heaney, after describing the content, preparation and tone of Matthiessen's book, analyzed, in considerable detail, the statements challenged by Price, and declared that, for the most part, the statements were unspecific, unverifiable and protected criticisms of a public official's performance of his duties.

The court then found that Price failed to show by clear and convincing evidence that Matthiessen published "particular false material facts with knowledge of their probable falsity." There also was no evidence of reckless disregard on the part of Viking, and Matthiessen was not an employee of Viking such that liability, were the court to find any, could be imputed.

Judge Heaney concluded by recognizing both Price's diligent work for the government and " the damage done to every American when a book is pulled from the shelf, as in the case, or when an idea is not circulated." Matthiessen's book, although admittedly sympathetic to the Indian's cause, focused more on public institutions than it did on any public official, stated Judge Heaney, who proceeded to express his approval of allowing continued debate concerning the matters raised in the book.

It should be noted that Matthiessen and Viking also prevailed in a libel action brought by William Janklow, the former attorney general and governor of South Dakota (see ELR 11:4:15), involving certain statements in Matthiessen's book.

Price v. Viking Penguin, Inc., 881 F.2d 1426 (8th Cir. 1989) [ELR 11:9:14]

Soldier of Fortune Magazine obtains reversal of $9.4 million judgment against magazine for publishing advertisement placed by ex-Marine later sentenced for murder

The fall 1984 issues of Soldier of Fortune Magazine contained a classified advertisement placed by John Wayne Hearn, a former Marine. The ad stated "EX-MARINES - 67-69 'Nam Vets, Ex-DI, weapons specialist-jungle warfare, pilot, M.E., high risk assignments, U.S. or overseas," and provided a telephone number. Robert Black called Hearn after seeing the ad, and eventually arranged for Hearn to kill Black's wife. Hearn received a life sentence for the murder.

Sandra Black's son, Gary Wayne Black, and her mother, Marjorie Eimann, sued Soldier of Fortune and its parent company, Omega Group, Ltd. for wrongful death under Texas law.

A Federal District Court jury found that Soldier of Fortune's negligence was a proximate cause of Sandra Black's death, and that the negligence constituted "gross negligence," and awarded Eimann $1.9 million in compensatory damages and $7.5 million in punitive damages.

In reversing the District Court's entry of judgment on the verdict, Federal Court of Appeals Judge W. Eugene Davis, although declining to consider the magazine's First Amendment concerns, found that Soldier of Fortune was not liable for negligence. The magazine, stated the court, "owed no duty to refrain from publishing a facially innocuous classified advertisement when the ad's context - at most - made its message ambiguous."

Judge Davis assumed, for purposes of the court's analysis, that Soldier of Fortune owed a duty of reasonable care to the public, but that the magazine's decision to publish Hearn's advertisement did not violate that

standard of conduct. The prospect of "ad-inspired crime" may present a threat of serious harm, but the advertisement in issue was fundamentally ambiguous. The District Court did not properly balance the risks of harm from ambiguous advertisements and the burden of preventing such harm, stated Judge Davis, who refused to impose on publishers the obligation to reject all ambiguous advertisements for products or services that might pose a threat of harm. "Without a more specific indication of illegal intent than Hearn's ad or its context provided," the court concluded that Soldier of Fortune did not violate the required standard of conduct by publishing an ad that, unfortunately, played a role in criminal activity.

Eimann v. Soldier of Fortune Magazine, In(-., 880 F.2d 830 (5th Cir. 1989) [ELR 11:9:15]

Volkswagen of America and television commercial producer may sue Amateur Hockey Association because prior litigation did not bar breach of contract and breach of warranty claims

On March 12, 1980, the Amateur Hockey Association of the United States, the authorized representative of the gold medal winning United States Hockey Team, entered into a contract with James Neal Harvey, Inc. and other parties granting Volkswagen of America, Inc. the right to use the name, logo, trademarks and other identifying symbols of the hockey team to promote Volkwagen products in a single television commercial to be produced by Harvey. The contract also granted Volkswagen the right to use the marks in print materials supporting the television campaign, and stated that the Hockey Association "has not entered into, and shall not enter into, any agreement with any third party which

may interfere with the free exercise of VW of the rights granted to it herein."

On March 13, 1980, the Hockey Association granted J.B. Bonelli the exclusive print and poster rights to the 1980 United States Hockey Team. When Bonelli learned that Volkswagen, as part of the promotional campaign, was distributing free posters of the team, Bonelli sued Vokswagen and Harvey in Michigan for tortious interference with an advantageous business relationship. A jury awarded Bonelli damages of $1.6 million. However, Bonelli's breach of contract claim against the Hockey Association was rejected.

The Harvey parties sued the Hockey Association in a New York trial court claiming that their contract entitled Volkswagen to distribute the posters and prints of the hockey team, and that the Association's grant of exclusive poster rights to Bonelli constituted breach of contract and breach of warranty. The Hockey Association

argued that the doctrine of collateral estoppel barred the Harvey parties' claim.

Judge Altman noted that under Michigan law, collateral estoppel "bars relitigation in a second action of issues decided in a previous action where the parties are the same, although a new cause of action is alleged." Unlike New York law, Michigan law requires the parties in the first action to have filed claims or cross claims against each other in order for the judgment to have preclusive effect.

Judge Altman pointed out that no cross claims were filed between the Hockey Association and the Harvey parties in the Michigan action, and that the Harvey parties therefore were not barred from bringing the instant action. Judge Altman also found that questions of fact were raised as to the extent of the rights conferred by the Association to the Harvey parties, and summary judgment was denied accordingly.

Harvey v. Amateur Hockey Association of the United States, New York Law Journal, p. 24, col. 4 (N.Y.Cnty., Dec. 26, 1989) [ELR 11:9:15]

Actor William Hurt is not the common law husband of former dancer Sandra Jennings, rules New York trial court

Judge Jacqueline W. Silbermann, who previously had questioned the likelihood that former ballet dancer Sandra Jennings would prevail in establishing the validity of an alleged common law marriage to actor William Hurt (ELR 10:3:16), has ruled that Jennings did not prove the existence of such a marriage under South Carolina law.

The court reviewed the relationship between the parties between October 31, 1982 and January 10, 1983 when Hurt and Jennings, who was expecting Hurt's

child, lived together in South Carolina during the filming of "The Big Chill." Hurt's divorce from his wife became final on December 3, 1982. In late December, Hurt signed a document entitled "Paternity Acknowledgment." However, noted Judge Silbermann, Jennings did not present a preponderance of credible evidence that the parties held themselves out as husband and wife after December 27, 1982, the date when Jennings apparently learned that the actor's divorce was final. The fact that Hurt, on occasion, referred to Jennings as his "wife" was found "barely relevant." Of greater significance for the court was the fact that not one friend of either of the parties testified that the parties held themselves out as married, and that neither employment records nor insurance policies designated Jennings as Hurt's wife; the parties never filed joint tax returns or had a single joint bank account.

In the court's view, the parties did not intend to enter a marriage contract, and absent such an intent, Jennings and Hurt were not husband and wife under South Carolina law no matter how long they lived together. Hurt's divorce did not " per se transform this illicit relationship into a common-law marriage." An agreement to marry could not be inferred from the fact that the parties were living together, emphasized Judge Silbermann, and Sandra Jennings, accordingly, was not the common law wife of William Hurt.

Jennings v. Hurt, New York Law Journal, p. 24, col. 2 (N.Y.Cnty., Oct. 4, 1989) [ELR 11:9:16]

Dispute over biography of late performer Harry Chapin is ordered to trial

Author Peter Coan may proceed with his claim against the estate of Harry Chapin, a New York appellate court has ruled.

Coan alleged that representatives of the estate tortiously interfered with his contract with Perigree Books, a division of Putnam Publishing Group, for the publication of a biography of the late performer. Apparently, Perigree, after approving Coan's manuscript, declined to publish the book. Coan claimed that the estate threatened, without a justifiable reason, to sue Perigree if the company printed the biography.

The Chapin parties argued that Coan's contract with Perigree was terminable at will; that they did not, as a matter of law, tortiously interfere with the contact; and that documentary evidence established the estate's claim to Coan's biography.

In affirming a trial court decision, the appellate panel noted that the "standard" contract between Coan and

Perigree provided that if the author failed to deliver "a manuscript satisfactory to the publisher in style, content, length and form, the publisher, at its sole discretion, would have the option of either requiring that the manuscript be changed or to terminate the contract upon written notice to the author." The court rejected the contention that a publishing contract containing a satisfaction clause was terminable at will.

Even if the contract were terminable at will, continued the court, summary judgment was properly denied the Chapin parties because questions of fact were raised as to whether the alleged threats of litigation were based upon good faith and probable cause, and as to whether the estate possessed any interest in the biography.

Coan v. Estate of Chapin, New York Law Journal, p. 22, col. 4 (N.Y. App., Jan. 2, 1990) [ELR 11:9:16]

Concert promoter's individual liability under contract with public relations agency is upheld, notwithstanding promoter's corporate bankruptcy petition

The filing of a corporate bankruptcy petition by Pioneer American Realty Company, Inc. (also known as Parco Enterprises" did not automatically divest a Tennessee state court of jurisdiction over a breach of contract claim against Mark Parrish, the president of the company, a Tennessee appellate court has ruled. Bill Walker & Associates, a company hired by Parrish to provide marketing and promotion services for a series of concerts in Texas, had obtained a judgment of about $23,000 against Parrish personally. Bill Walker's action was not against the corporate debtor in the bankruptcy proceeding, noted the court, and did not seek the corporate debtor's estate.

However, the trial court erred in holding Parrish personally liable under a December 1985 contract on the ground that the corporate entity named in the contract, Parco Enterprises, did not exist. The appellate court stated that Pioneer American was permitted to enter a contract using its assumed name without affecting the validity of the contract, and the contract was enforceable by either contracting party, as long as the identity of the corporation could be established. By using the name "Parco," the parties intended to bind Pioneer American.

Judge Koch then found that the contract conveyed an intent to obligate Parrish as an individual in addition to Pioneer American, affirmed the trial court judgment, and remanded the case for any further proceedings which might be required.

The Tennessee Supreme Court has denied permission to appeal.

Bill Walker & Associates, Inc. v. Parrish, 770 S.W.2d 764 (Tenn. App. 1989) [ELR 11:9:17]

First Amendment precludes imposing liability on publisher of liquid diet plan book for death of dieter

Lyle Stuart, Inc., the publisher of Robert Linn's book "When Everything Else Fails ... The Last Chance Diet," was not liable for damages in connection with the death of dieter Patricia Smith, a Pennsylvania trial court has ruled.

David H. Smith claimed that Patricia Smith died as a result of the "sudden onset of complications caused by a liquid protein diet which she was following." In affirming a lower court decision granting summary judgment to Lyle Stuart, Pennsylvania Superior Court Judge Tamilia noted that Smith had followed the diet under the

care of a doctor, rejected the claim that the book was "an incitement to immediate unreflecting action" and therefore not protected by the First Amendment, and found that the publisher did not engage in any tortious conduct.

The court declined to rely on cases involving the liability of drug manufacturers arising from marketing prescription medications with potentially dangerous side effects, stating that "instructions by a manufacturer which accompany medication or use of certain marketed goods cannot be equated with publication of books which espouse a writer's theory, opinions or ideology."

Judge Tamilia also agreed with the lower court's finding that the diet book was not a product. While expressing concern for the "grievous circumstances" of Ms. Smith's death, the court emphasized that its obligation to guarantee the "scrupulous protection" of the First

Amendment required the affirmance of the trial court's ruling.

Smith v. Linn, 563 A.2d 123 (Pa. Sup. Ct. 1989) [ELR 11:9:17]

United States Supreme Court rules that Dallas licensing ordinance regulating sexually oriented businesses does not contain adequate procedural safeguards

A 1986 Dallas ordinance regulating sexually oriented businesses was an unconstitutional prior restraint that failed to provide adequate procedural safeguards, the United States Supreme Court has ruled, in a 6-3 vote with five separate opinions.

The ordinance defined a "sexually oriented business" as "an adult arcade, adult bookstore or adult video store, adult cabaret, adult motel, adult motion picture theater, adult theater, escort agency, nude model studio, or sexual encounter center." The businesses were subject to various zoning, licensing, and inspection requirements.

In response to three separate lawsuits, a Federal District Court upheld the ordinance, with the exception of four subsections. A Federal Court of Appeals affirmed the District Court's decision, finding that the ordinance was a content neutral time, place, and manner regulation that served a substantial government interest and provided reasonable alternative means of communication.

Justice Sandra Day O'Connor first stated that the Supreme Court's ruling was based on the ordinance's lack of procedural safeguards; the court did not reach the issue of whether the ordinance was a content-neutral time,

place and manner restriction "aimed at secondary effects arising out of the sexually oriented businesses..."

It was noted that most of the businesses subject to the ordinance were protected by the First Amendment - the city did not argue that the businesses were engaged in distributing obscene material; that the business owners were entitled to raise a facial challenge to the ordinance; and that the businesses had a valid First Amendment interest.

Justice O'Connor next stated that although the regulations would allow police officials to postpone indefinitely the issuance of a license, the challenged ordinance was not a "censorship scheme." Thus, the full procedural protections set forth in Freedman v. Maryland, 380 U.S. 51 (1965) were not required. The failure to provide for a limitation on the time within which a licensing decision must be made, and to provide a means for prompt judicial review in the event of a license denial would

render the ordinance's licensing requirement unconstitutional "insofar as it is enforced against those businesses engaged in First Amendment activity, as determined by the court on remand."

The decision in Freedman involved direct censorship of particular expressive material, stated Justice O'Connor. Under the challenged ordinance, the city did not evaluate the content of protected speech. Furthermore, since the business owners in the instant proceeding were more likely than the motion picture distributors in Freedman to challenge the denial of a license, the court concluded that the First Amendment did not require that the city bear the burden of going to court to effect the denial of a license application or that it bear the burden of proof once in court.

The matter therefore was remanded for further proceedings concerning the severability of the invalid licensing provisions.

Justice Brennan, with whom Justice Marshall and Justice Blackmun joined, concurred in the judgment invalidating the licensing provisions as applied to any First Amendment- protected business on the ground that inadequate procedural safeguards were provided. However, Justice Brennan would have required the city to provide all three, rather than only two, of the procedural safeguards specified in Freedman v. Maryland. After pointing out that the court has required Freedman procedures in a wide variety of contexts, Justice Brennan stated that he would have held that the city of Dallas had the burden of instituting court proceedings before it could permissibly deny licenses to First Amendment-protected businesses. For Justice Brennan, "the danger posed by a license that prevents a speaker from speaking at all is not derived from the basis on which that license was purportedly denied. The danger posed is the unlawful stifling of speech that results."

Justice White, with whom Chief Justice Rehnquist joined, concurred in part and dissented in part. Justice White would have affirmed the Court of Appeals' holding that Freedman v. Maryland did not apply to the content neutral Dallas licensing scheme. Justice White also pointed out that the Court of Appeals had held that the ordinance did not grant undue discretion to the licensor because there were sufficiently objective standards for the chief of police to apply. According to Justice White, Justice O'Connor's opinion did not "disturb" this aspect of the Court of Appeals' decision, and thus dispensed with one "arguably tenable" reason for invoking Freeman.

Furthermore, stated Justice White, there was no basis for holding that businesses dealing in expressive materials were singled out by the ordinance, and there was no showing that the license applications of the parties were not promptly considered, or that they were unable to

obtain the required inspections or unable to secure reasonably prompt review of a denial. In all, it appeared to Justice White that "there is no realistic prospect that the requirement of a license will have anything more than an incidental effect on the sale of protected materials." Justice White concluded by expressing doubt that bookstores or radio or television stations must be given special consideration in the enforcement of general health, building, and fire regulations. If they must, queried Justice White, "why wouldn't a variety of other kinds of business, like supermarkets and convenience stores that sell books and magazines, also be so entitled?"

Justice Stevens would have remanded for an evidentiary hearing certain standing issues raised with respect to one of the civil disability provisions of the licensing scheme, but joined in the other parts of Justice O'Connor's opinion.

Justice Scalia joined in the court's opinion on the standing issue and on the merits of certain portions of the ordinance, but would have affirmed the Court of Appeals' holding that the ordinance was constitutional.

After careful consideration of the issues involved in regulating "sexually oriented businesses," Justice Scalia proposed to end a " regime of prohibition by indirection" by recognizing that "a business devoted to the sale of highly explicit sexual material can be found to be engaged in the marketing of obscenity, even though each book or film it sells might, in isolation, be considered merely pornographic and not obscene." Thus because Dallas could constitutionally have proscribed the commercial activities the city chose instead to license, declared Justice Scalia, the details of the licensing scheme did not have to comply with First Amendment standards.

Justice Scalia found it significant that the ordinance could be interpreted to restrict businesses that specialize

(emphasis by Justice Scalia) in books, films or entertainment of a particular type, instead of applying "work-by-work." Thus, even though a particular work may not be obscene, a business concentrating upon the sale of such works may be engaged in the business of obscenity, and thus may be prohibited.

Favorably construed, stated Justice Scalia, the Dallas ordinance regulated only the business of pandering, i.e., providing live nudity or regularly distributing works that are sexually explicit in more than a minor degree. The regulated businesses would be engaged in the continuous presentation of the sexual material "as one of the very objectives of the commercial enterprise." The parties in the instant proceeding not only offered live nudity or hard-core sexual material as a constant, intentional objective of their business, stated Justice Scalia, but also sought to promote such unprotected activities.

Justice Scalia concluded by emphasizing that his proposed analysis would apply to the concentration of pornography; such an analysis " entails no risk of suppressing even a single work of science, literature, or art - or, for that matter, even a single work of pornography," and stated his belief that "in the long run it will expand rather than constrict the scope of permitted expression, because it will eliminate the incentive to use, as a means of preventing commercial activity patently objectionable to large segments of our society, methods that constrict unobjectionable activity as well."

FW/PBS, Inc. v. City v. of Dallas, Case No. 87- 2012 (U.S.Sup.Ct., Jan. 9, 1990) [ELR 11:9:18]

Briefly Noted:

Concert Performance.

A New York appellate court has agreed with a trial court (ELR 10:3:12) that musician Adam Ippolito may proceed with several causes of action against Yoko Ono Lennon arising from the allegedly unauthorized use of a 1972 concert performance. The court found that the cause of action for invasion of privacy was properly sustained based on Ippolito's allegation that his name and picture were used for purposes of trade without his written consent in violation of section 51 of the New York Civil Rights Law. Ippolito also was entitled to proceed with his cause of action for fraudulent misrepresentation, and the appellate court ordered reinstated that portion of the cause of action for unfair competition which was based on a claim of "palming off."

Ippolito v. Lennon, 542 N.Y.S.2d 3 (N.Y.App. 1989) [ELR 11:9:19]

New York Civil Rights Law.

A New York trial court has granted Warner Bros.' motion to dismiss a complaint brought by William Clayton Marquette, known as "Pee Wee" Marquette. Marquette was the master of ceremonies at the "Birdland" night club where Charlie Parker often performed. The film "Bird" contains a three second sequence in which a master of ceremonies appears on stage; the individual is not identified by name during the sequence, but is identified in the film's credits as a character named "Pee Wee" Marquette, played by actor Tony Cox.

The court stated that even if it accepted the truth of Marquette's allegations and even if it were to find that a

film about Charlie Parker's life and music were not a subject of public interest which would remove the purportedly unauthorized use of Marquette's name from the reach of sections 50 and 51, Marquette did not state a cause of action under the New York Civil Rights Law because the unauthorized use was merely incidental. Judge Tompkins noted that "the incidental use of a person's name or photograph, whether in the context of a documentary or even a fictional story, falls outside the right to privacy created by Sections 50 and 51..."

Marquette v. Warner Brothers Inc., 16 Med.L.Rptr. 1957 (N.Y.Cnty. 1989) [ELR 11:9:19]

Art.

In 1982, Federal Insurance Company paid a $35,000 claim to the owners of an Andy Warhol painting which had been damaged. Although notifying the owners that the company would arrange to pick up the "salvage," Federal Insurance took no further action until December 1986. When the owners refused to turn over the painting, the company sought the return of the claim payment.

A New York trial court has granted summary judgment dismissing the complaint on the ground that the insurance company did not show that there was an obligation either under the policy or under any applicable law to turn over to the insurer damaged items on which the full insured value was paid. The court saw "no reason" to require an insured to turn over damaged property simply because the insurer did not make an assessment as to whether an item of personal property which was damaged, but not destroyed, retained any value, which value

the insurer could have deducted from the full insured value to determine the amount to be paid on the claim.

Federal Insurance Company v. Cowen, New York Law Journal, p. 22, col. 1 (N.Y.Cnty., Dec. 13, 1989) [ELR 11:9:20]

Antitrust/Street Vendors.

A Federal Court of Appeals has affirmed a District Court decision (ELR 10:7:16) dismissing without prejudice an antitrust action brought by two street vendors against the owner and operator of Busch Stadium in St. Louis. Civic Center Corporation had awarded an exclusive vending services contract to Sportservice Corporation. Terril Huelsman and Richard Yackey alleged, among other claims, that Civic Center and Sportservice

conspired to restrain competition in the sale of goods in the Busch Stadium area. The court found that on the basis of the record presented to the District Court, the court correctly concluded that the vendors did not demonstrate the required "nexus" between the conduct of the Civic Center parties and interstate commerce to establish subject matter jurisdiction under the Sherman Act.

Huelsman v. Civic Center Corporation, 873 F.2d 1171 (8th Cir. 1989) [ELR 11:9:20]

Previously Reported:

The following cases, which were reported in previous issues of the Entertainment Law Reporter, have been published: Johnson v. Berkofsky-Barret Productions, Inc., 260 Cal.Rptr. 67 (11:2:14); Lutz v. De Laurentiis,

260 Cal.Rptr. 106 (11:3:9); Masson v. New Yorker Magazine, Inc., 881 F.2d 1452 (11:4:7); Rogers v. Grimaldi, 875 F.2d 994 (11:2:5).

The United States Supreme Court has let stand a ruling by a California appellate court holding that the city of Montclair's theater admission tax ordinance was unconstitutional. The California Supreme Court had denied the city's petition for review (ELR 11:2:12).

The United States Supreme Court also has let stand a decision by a Federal Court of Appeals in California holding that Harkins Amusement Enterprises may seek damages in its antitrust action alleging a product split arrangement among competing film exhibitors and distributors (ELR 10:7:16; 9:12:11).

According to news reports, Columbia Pictures has settled a lawsuit brought by Harvey Publications alleging that the logo in Columbia's advertisements for the film "Ghostbusters" infringed Harvey's copyrighted ghost

character known as "Fatso." A Federal District Court had ruled on behalf of Columbia (ELR 8:7:10). Harvey stated that it had agreed not to disclose the value of the settlement.
[Feb. 1990] [ELR 11:9:20]

IN THE NEWS

Federal Communications Commission will review competition in cable television industry

The Federal Communications Commission has voted to review the provisions of the 1984 Cable Act which exempt from local rate regulation cable systems in communities served by three or more broadcast stations.

The Commission determined that the study of competition in the cable industry was required by "changed

circumstances in the video marketplace" since the passage of the Cable Act. Most communities now have only one cable system, and since cable has become the primary way viewers watch television in the United States, the industry has gained power in the marketplace. However, cable subscribers often encounter high rates and poor service.

The Commission will consider, among other questions, whether "effective competition" should be redefined to mean four or more broadcast stations in a cable market, instead of three; whether cable systems face effective competition from other "video-delivery" methods such as direct broadcast satellites and microwave systems; and whether allowing subscribers to pay for lowest-tier service on a per-channel basis would increase competition. [Feb. 1990] [ELR 11:9:21]

Bette Midler wins $400,000 in action against advertising agency for unauthorized imitation of her voice

In late October 1989, a Federal District Court jury in Los Angeles awarded entertainer Bette Midler $400,000 in her action against the Young & Rubicam advertising agency see (ELR 10:2:7; 10:7:16).

Midler claimed that the agency hired her former back-up singer to imitate Midler's voice in a television commercial for Ford Motor Co. Midler had refused to make the commercial. ne District Court previously had dismissed Midler's claims against Ford. [Feb. 1990] [ELR 11:9:21]

Record producer is ordered to return 1987 recordings to Ringo Starr; Starr will pay $74,000 in recording costs

A Georgia trial court has ordered record producer Chips Moman to turn over to Ringo Starr certain 1987 recordings. Moman and CRS Records had sought to release an album containing the material by Starr, and to recover $162,000 for expenses allegedly incurred at a Memphis studio where Starr recorded.

The court previously had issued a temporary injunction (ELR 11:5:20), subsequently made permanent, barring Moman from releasing the album.

Starr will pay Moman $74,000 in expenses. However, according to news reports, Moman will appeal the ruling and will attempt to uphold an alleged oral agreement in which Starr purportedly agreed to share the royalties on his next two albums with Moman. [Feb. 1990] [ELR 11:9:21]

DEPARTMENTS

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Copyright Legislation and Technological Change by Jessica Litman, 68 Oregon Law Review 275 (1989)

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[ELR 11:9:23]