LEGAL AFFAIRS

Copyright Renewal after the 1992 Amendments: The Strategic Choices to be Made between Automatic and Applied-For Renewals

by Lionel S. Sobel

"To renew, or not to renew? That now is the question . . ." for authors and their families, for copyright assignees and licensees, and for all of their lawyers. While not as majestic as "To be or not to be," this copyright question could have significant financial implications, and thus some careful thought should be given to its answer.

In the old days the answer would always be "yes, renew," because in the old days, works first published (or registered as unpublished works) prior to 1978 had to be renewed or they plunged into the public domain, permanently, beyond rescue. Renewal was not difficult. It merely required the filing of a Form RE with the Copyright Office during last year of the initial term, that is, by December 31st of the calendar year of the 28th anniversary of first publication (or pre-publication registration). Often, however, the form was not filed due to inadvertence or ignorance, or was filed by or on behalf of the wrong person, and then the work's copyright expired - 47 years prematurely.

Now, however, the answer to the renewal question may occasionally be "no, don't file an application for renewal. Rely instead on automatic renewal."

New automatic renewal law

For renewal purposes, the old days were those before June 26, 1992, for that is the effective date of the

Copyright Amendments Act of 1992 which provides for automatic renewal of the copyrights to all works first published (or registered as unpublished works) from 1964 through 1977. (The new law does not apply to (and thus automatic renewal is not available for) works first published (or registered) in 1963 or earlier; and the copyrights to works first published in or since 1978 do not need to be renewed, because their duration is the author's life plus 50 years (or for certain types of works, 75 years from first publication or 100 from creation, whichever expires first).)

The new law still permits the filing of renewal registration applications, but filing is no longer required. The copyrights to 1964 through 1977 works will be deemed automatically renewed for an additional 47 years - for a total of 75 years from first publication (or registration) - even if the work's initial term was never registered in the first place.

Advantages of filing for renewal

Though filing an application for renewal is no longer required, there are still certain advantages to doing so, especially during the last year of the initial term.

First, if an application to renew is filed during the last year of the initial term, the renewal certificate issued by the Copyright Office will constitute prima facie evidence of the validity of the copyright and of the facts stated in the certificate - including, for example, the identity of the owner of the renewal term copyright. A renewal term copyright may be registered after the copyright has renewed automatically and the renewal term has begun, but the evidentiary weight to be given to certificates issued after the renewal term has begun "shall be within the discretion of the court" (and who knows what weight such discretion shall afford).

Second, in an action involving the infringement of a renewal term copyright, statutory damages and attorneys' fees may be available to a prevailing plaintiff only if the renewal term copyright was registered before the infringement took place. (The law seems ambiguous about whether statutory damages and attorneys' fees will be available in a suit involving the infringement of the renewal term of a copyright, if only the initial term was registered prior to the infringement.)

Since the copyrights to works of U.S. origin must be registered before an infringement action may be filed, it ordinarily will make sense to file a renewal registration form during the last year of the initial term, in order to take advantage of the "prima facie evidence" weight given to certificates issued in response to such filings, and to be certain the renewal term is registered before any infringement occurs in order to maximize the copyright owner's chances of recovering statutory damages and attorneys' fees.

Moreover, if a security interest is granted in a renewal term copyright after the renewal term has begun, the perfection of that security interest requires registration of the renewal term (and the recordation of the security agreement in the Copyright Office). [Cf., In re Peregrine Entertainment, 16 U.S.P.Q.2d 1017, 116 Bankr. 194 (C.D.Cal. 1990)(ELR 12:5:12); In re AEG Acquisition Corp., 127 Bankr. 34, 1991 Bankr.Lexis 638 (C.D.Cal.Bankr.Ct. 1991)(ELR 13:8:9)] Filing a renewal registration form also may be necessary for the continued perfection of a security interest first granted during the initial term of the copyright.

Effect on renewal-term transfers and licenses

It also may be advantageous to file an application to register a copyright's renewal during the final year of its initial term in those cases where an author has transferred a copyright, or granted licenses thereunder, "for the entire term of the copyright, including renewals and extensions thereof." However, in such cases, filing an application to renew is a two-edged sword. Doing so - especially if done early in the final year of the initial term - actually may deprive an author's heirs of rights they otherwise would have enjoyed, had they filed later or simply relied on automatic renewal.

To decide whether it would be better to rely on automatic renewal or to file a renewal application (where an author has already transferred the renewal term or rights thereunder), it is necessary to consider whether the author has died already, and if not, whether the author is likely to die before the end of the initial term. The author's health has become significant for copyright renewal purposes, because the new amendments give potential renewal claimants a certain amount of control over the date on which the renewal term "vests," and thus a certain amount of control over who will own the renewal term.

The new law permits a certain amount of control over who will own the renewal term by virtue of three general principles:

First, if a renewal application is filed during the last year of the initial term, the renewal vests in the person who is entitled to the renewal at the time the application is filed. [Copyright Act section 304(a)(2)(B)(i)]

Second, if an application is not filed, renewal is automatic and vests in the person who is entitled to the renewal on the last day of the original term. [Copyright Act section 304(a)(2)(B)(ii)]

Third, if the author is alive when the renewal term vests, the renewal vests in the author. If the author is not alive when the renewal term vests, the renewal vests in the author's statutory successors (i.e., surviving spouse or children, or executors or next of kin). [Copyright Act section 304(a)(1)(C)]

These three principles mean that renewal will vest in the author if a renewal application is filed while the author is alive, or if no application is filed but the author is alive on the last day of the initial term; but renewal will vest in the author's statutory successors if the author has already died when the renewal application is filed, or if the author dies before the last day of the initial term if no application is filed.

However, the identity of the person in whom the renewal term "vests" is only the first step in determining who the ultimate owner will be, where the author previously transferred the renewal term or granted rights under it. The second step is an assessment of the effectiveness of the author's transfer - a step involving the application of Supreme Court decisions pre-dating the 1992 amendments.

This two-step analysis means that the manner in which a copyright is renewed may be particularly significant where the author has previously transferred the renewal term or granted rights under it. Compare the consequences of filing an application for renewal with those of automatic renewal in each of three circumstances:

1. The author has died prior to the start of the final year of the intial term.

2. The author dies only after the renewal term has begun (or outlives the copyright altogether).

3. The author has lived into the final year of the initial term, but dies before the renewal term begins.

If author died prior to final year of initial term

If the author died prior to the final year of the initial term, the author's statutory successors (i.e., surviving spouse and children, etc.) are bettor off if they file an application for renewal than if they rely on automatic renewal. This is so because (in addition to the advantages already described), if - but only if - the author's statutory successors file a renewal application, a license will have to be obtained from them for the continued exploitation of any derivative works that may have been produced during the initial term (even if produced pursuant to a license from the author that purported to cover the renewal term as well).

In other words, only if the statutory successors file a renewal application will they benefit from the Supreme Court's decision in the "Rear Window" case, Stewart v. Abend, 495 U.S. 207 (1990). In that case, the Court held that if an author dies before the renewal term vests, the author's grant of a derivative work license for the renewal term is not effective and is not binding on renewal term claimants; and the Court held that the licensee's exploitation of its derivative work during the renewal term of the author's work infringes that work's copyright, even though the derivative work was produced (during the original term) with the author's permission and the author agreed to allow the licensee to exploit its derivative work during the renewal term of the author's work. [See, Sobel, View from the "Rear Window": A Practical Look at the Consequences of the Supreme Court's Decision in Stewart vs. Abend (ELR 12:1:3)]

The following chart compares the other consequences of filing an application for renewal with those of automatic renewal. (The numbers in brackets refer to the numbered paragraphs of explanation below the chart.)

STATUTORY SUCCESSORS FILE APPLICATION FOR RENEWAL DURING FINAL YEAR OF INITIAL TERM

Assignment of renewal term by author is ineffective and renewal term is owned by statutory successors [1]

Grant of derivative work license for renewal term is ineffective, and:

- continued exploitation of a derivative work produced during initial term violates renewal term copyright (of underlying work) [3]

- production of new derivative works during renewal term is not permitted

Conveyance of renewal term to trust or by will is ineffective and renewal term is owned by statutory successors [6]

RENEWAL IS AUTOMATIC (I.E., NOT APPLIED FOR)

Assignment of renewal term by author is ineffective and renewal term is owned by statutory successors [2]

Grant of derivative work license for renewal term is partially effective and partially ineffective, because:

- continued exploitation of a derivative work produced during initial term is permitted [4]

- but production of new derivative works during renewal term is not permitted [5]

Conveyance of renewal term to trust or by will is ineffective and renewal term is owned by statutory successors [7]

Explanation (paragraph numbers refer to the numbers in the chart above):

1. The assignment of the renewal term would be ineffective because the author died prior to the final year of the initial term, prior to the earliest date on which a renewal application could be filed, and thus prior to the vesting of the renewal term. In Miller Music Corp. v. Charles N. Daniels, Inc., 362 U.S. 373 (1960), the Supreme Court held that if an author dies before the renewal term vests, the author's prior transfer of the renewal term is not effective and is not binding on renewal term claimants. This principle is carried forward by the 1992 amendments; the statutory successors own

the copyright if they file a renewal application pursuant to Copyright Act section 304(a)(2)(B)(i) which provides: "At the expiration of the original term of copyright . . . , the copyright shall endure for a renewed and extended term of 47 years, which . . . if an application to register a claim to such further term has been made . . . within 1 year before the expiration of the original term of copyright . . . shall vest . . . in any person who is entitled . . . to the renewal and extension of the copyright at the time the application is made . . . " (emphasis added).

2. The assignment of the renewal term would be ineffective even if a renewal application were not filed, because the author died before the final year of the initial term, and thus before the last day of the initial term which is the date the renewal term vested in the statutory successors pursuant to Copyright Act section 304(a)(2)(B)(ii) which provides: "At the expiration of the original term of copyright . . . , the copyright shall

endure for a renewed and extended term of 47 years, which . . . if no such application is made . . . shall vest . . . in any person entitled . . . as of the last day of the original term of copyright, to the renewal and extension of the copyright" (emphasis added).

3. Because the statutory successors filed an application to renew during the final year of the initial term, they enjoy the benefits of the "Rear Window" decision, Stewart v. Abend, 495 U.S. 207 (1990) - a decision which was not affected by the 1992 Amendments Act.

4. In this case, where the statutory successors relied on automatic renewal, they do not enjoy the benefits of the "Rear Window" decision. Instead, Copyright Act section 304(a)(4)(A) now provides: "If an application to register a claim to the renewed and extended term of copyright in a work is not made within 1 year before the expiration of the original term of copyright . . . then a derivative work prepared . . . before the expiration of

the original term of copyright may continue to be used under the terms of the grant during the renewed and extended term of copyright without infringing the copyright . . . ." This provision does not deprive statutory successors of any rights they would have enjoyed prior to the 1992 Amendments; because prior to the Amendments, if they had not filed for renewal, their copyright would have gone into the public domain altogether, and the producer of a derivative work would have been able to continue to exploit it for that reason.

5. This is a new benefit that follows from automatic renewal, and is set forth in Copyright Act section 304(a)(4)(A) which reads as set forth in paragraph 4 (immediately above) and then ends with: ". . . except that such use does not extend to the preparation during such renewed and extended term of other derivative works based upon the copyrighted work covered by such grant."

6. This follows from Copyright Act section 304(a)(2)(B)(i) and Miller Music Corp. v. Charles N. Daniels, Inc. (see paragraph 1 above), and from Saroyan v. William Saroyan Foundation, 675 F.Supp. 843 (S.D.N.Y. 1987), (ELR 9:12:6) which held that the renewal may be claimed only by those specified in section304(a), even if the author conveyed by will (as-yet unvested) renewal copyrights to others (indeed, even if the author conveyed renewal copyrights to a charitable foundation and even if author had poor relationships with those specified in section304(a)). Here, since the author died before the final year of the initial term, it is the statutory successors who may claim the renewal term.

7. The result is the same if automatic renewal is relied on, because Copyright Act section 304(a)(2)(B)(ii) (quoted in paragraph 2 above) vests the renewal in those entitled to it on the last day of the initial term, which

would be the statutory successors in cases where the author died before the final year of the initial term began.

If author lives until renewal term commences

If the author lives until the renewal term commences, there do not appear to be any extra advantages to filing a renewal application (apart, that is, from the prima facie evidence and damages advantages described above).

The following chart compares the consequences of filing an application for renewal with those of automatic renewal; it shows they are the same. (The numbers in brackets refer to the numbered paragraphs of explanation on the following page.)

AUTHOR FILES APPLICATION FOR RENEWAL DURING FINAL YEAR OF INITIAL TERM

Assignment of renewal term by author is effective and renewal term is owned by assignee [8]

Grant of derivative work license for renewal term is effective, and:

-continued exploitation of a derivative work produced during initial term is permitted [10]

-production of new derivative works during renewal term is permitted [10]

Conveyance of renewal term to trust or by will is effective [13]

RENEWAL IS AUTOMATIC (I.E., NOT APPLIED FOR)

Assignment of renewal term by author is effective and renewal term is owned by assignee [9]

Grant of derivative work license for renewal term is effective, and:

-continued exploitation of a derivative work produced during initial term is permitted [11]

-production of new derivative works during renewal term is permitted [12]

Conveyance of renewal term to trust or by will is effective [14]

Explanation (paragraph numbers refer to the numbers in the chart above):

8. The assignment of the renewal term is effective, because: first, the author was alive when a renewal application was filed, and thus the renewal vested in the author by virtue of Copyright Act section 304(a)(2)(B)(i) (quoted in paragraph 1 above); and second, in Fred Fisher Music Co. v. M. Witmark & Songs, 318 U.S. 643 (1943), the Supreme Court held that if a renewal term is transferred, even prior to vesting, the transfer is effective as to the transferee and binding on the author, so long as the author survives to the vesting of renewal term.

9. Even when automatic renewal is relied upon, the assignment of the renewal term is effective, because Copyright Act section 304(a)(2)(B)(ii) (quoted in paragraph 2 above) vests the renewal term in the person

entitled to it on the last day of the initial term, and that person is the author when, as here, the author is alive on that day. Fred Fisher Music Co. v. M. Witmark & Songs (see paragraph 8 above) would then make the transfer effective.

10. The author's grant of a derivative work license for the renewal term would be effective, under Copyright Act section 304(a)(2)(B)(i) and Fred Fisher Music (see paragraph 8 above); and thus the licensee's continued exploitation of existing derivative works and the production of new ones would be permitted.

11. This follows directly from Copyright Act section304(a)(4)(A) (quoted in paragraph 4 above).

12. The author's grant of a derivative work license for the renewal term would be effective, in this case under Copyright Act section 304(a)(2)(B)(ii) (quoted in paragraph 2 above), and Fred Fisher Music (see paragraph 8

above); and thus the licensee's production of new derivative works would be permitted.

13. The conveyance would be effective for the same reasons set forth in paragraph 8 above.

14. The conveyance would be effective for the same reasons set forth in paragraph 9 above.

If author died during the final year of the initial term

If the author died (or dies in the future) during the final year of the initial copyright term, the copyright consequences depend on whether the author's work was first published (or registered as an unpublished work) from 1964 through 1977, in which case the new law applies, or whether the work was first published (or registered) in 1963 or earlier, in which case the new law does not apply. There is a difference between the new law and some of the old law, where the author dies during the final year of the initial term.

a. If author dies during final year of initial term, and the work was first published (or registered as an unpublished work) in 1964 through 1977

If the author dies during the final year of the initial term, the author's heirs will be better off if the author did not file an application for renewal before dying, in cases where the author had transferred the renewal term copyright or had licensed rights thereunder, such as the right to produce and continue to exploit a derivative work. In such cases, the author's heirs will enjoy greater rights in the work if they file a renewal application themselves after the author has died. Moreover, they even will enjoy greater rights if they simply rely on automatic renewal than if the author files a renewal application before dying (though their rights will not be as great as those they would enjoy if they file a renewal application themselves after the author's death).

The following chart illustrates the advantages heirs will enjoy if the author does not file a renewal application. (The numbers in each box refer to the numbered paragraphs of explanation below the chart.)

AUTHOR FILES APPLICATION FOR RENEWAL BEFORE DYING

Assignment of renewal term by author is effective and renewal term is owned by assignee [15]

Grant of derivative work license for renewal term is effective, and:

-continued exploitation of a derivative work produced during initial term is permitted [18]

-production of new derivative works during renewal term is permitted [19]

Conveyance of renewal term to trust or by will is effective and renewal term is owned by trust or legatees 24

AUTHOR DOES NOT FILE APPLICATION FOR RENEWAL; BUT AFTER AUTHOR'S DEATH, STATUTORY SUCCESSORS DO FILE RENEWAL APPLICATION DURING FINAL YEAR OF INITIAL TERM

Assignment of renewal term by author is not effective and renewal term is owned by statutory successors [16]

Grant of derivative work license for renewal term is not effective, and:

-continued exploitation of a derivative work produced during initial term is not permitted [20]

-production of new derivative works during renewal term is not permitted [21]

Conveyance of renewal term to trust or by will is not effective and renewal term is owned by statutory successors [25]

RENEWAL IS AUTOMATIC (I.E., NOT APPLIED FOR)

Assignment of renewal term by author is not effective and renewal term is owned by statutory successors [17]

Grant of derivative work license for renewal term is partially effective and partially ineffective, because:

-continued exploitation of a derivative work produced during initial term is permitted [22]

-but production of new derivative works during renewal term is not permitted [23]

Conveyance of renewal term to trust or by will is not effective and renewal term is owned by statutory successors [26]

Explanation (paragraph numbers refer to the numbers in the chart above):

15. If the author files an application for renewal before dying, the renewal term will vest in the author, by virtue

of Copyright Act section 304(a)(2)(B)(i) (quoted in paragraph 1 above), even if the author dies before the end of the final year of the initial term. Then, by virtue of the Supreme Court's decision in Fred Fisher Music (see paragraph 8 above), the assignment will be effective and the renewal term will be owned by the assignee.

16. If the author does not apply for renewal, and the statutory successors do, the renewal term will vest in the successors by virtue of Copyright Act section 304(a)(2)(B)(i) (quoted in paragraph 1 above). In that case, by virtue of the Supreme Court's decision in Miller Music (see paragraph 1 above), the author's assignment will not be effective and the renewal term will be owned by the author's statutory successors.

17. If the author does not apply for renewal, the renewal term will vest in the author's statutory successors even if automatic renewal is relied upon, by virtue of Copyright Act section 304(a)(2)(B)(ii) (quoted in

paragraph 2 above). Again, by virtue of the Supreme Court's decision in Miller Music (see paragraph 1 above), the author's assignment will not be effective and the renewal term will be owned by the author's statutory successors.

18. If the author files an application for renewal before dying, the renewal term will vest in the author, by virtue of Copyright Act section 304(a)(2)(B)(i) (quoted in paragraph 1 above), even if the author dies before the end of the final year of the initial term. Then, by virtue of the Supreme Court's decision in Fred Fisher Music (see paragraph 8 above), the author's derivative work license will be effective and the licensee's continued exploitation of the derivative work will be permitted.

19. For the reasons set forth in paragraph 18 above, the licensee's production of new derivative works also will be permitted.

20. If the author does not apply for renewal, and the statutory successors do, the renewal term will vest in the successors by virtue of Copyright Act section 304(a)(2)(B)(i) (quoted in paragraph 1 above). In that case, by virtue of the Supreme Court's decision in the "Rear Window" case, Stewart v. Abend (see paragraph 3 above), the licensee's continued exploitation of its derivative work would infringe the renewal term copyright.

21. Production of new derivative works would be an infringement for the same reasons set forth in paragraph 20 above.

22. If the author does not apply for renewal, the renewal term will vest in the author's statutory successors even if automatic renewal is relied upon, by virtue of Copyright Act section 304(a)(2)(B)(ii) (quoted in paragraph 2 above). However, if automatic renewal is relied upon, Copyright Act section 304(a)(4)(A) (quoted in

paragraph 4 above) permits the continued exploitation of existing derivative works.

23. Even if automatic renewal is relied upon, Copyright Act section 304(a)(4)(A) does not authorize the production of new derivative works; and doing so would infringe the renewal term copyright that will have vested automatically in the author's statutory successors if the author has not applied for renewal before dying.

24. If the author applies for renewal before dying, the renewal term will vest in the author by virtue of Copyright Act section 304(a)(2)(B)(i) (quoted in paragraph 1 above), even if the author dies before the end of the final year of the initial term. Then, by virtue of the Supreme Court's decision in Fred Fisher Music (see paragraph 8 above), the conveyance will be effective and the renewal term will be owned by the trust or legatees.

25. If the author does not apply for renewal, and the statutory successors do, the renewal term will vest in the

successors by virtue of Copyright Act section 304(a)(2)(B)(i) (quoted in paragraph 1 above). In that case, by virtue of the Supreme Court's decision in Miller Music (see paragraph 1 above) and Saroyan v. William Saroyan Foundation (see paragraph 6 above), the author's conveyance will not be effective and the renewal term will be owned by the author's statutory successors.

26. Even if automatic renewal is relied upon, the renewal term will vest in the author's statutory successors by virtue of Copyright Act section 304(a)(2)(B)(ii) (quoted in paragraph 2 above). Again, by virtue of the Supreme Court's decision in Miller Music (see paragraph 1 above), the author's assignment will not be effective and the renewal term will be owned by the author's statutory successors.

b. If author died during final year of initial term, and the work was first published (or registered as an unpublished work) in 1963 or earlier

Since the new law does not apply to cases involving a work first published (or registered) in 1963 or earlier, the consequences of the death of an author of such a work during the final year of the initial term depend on judicial interpretations of the law as it read prior to its recent amendment. Unfortunately, the two published decisions addressing this issue conflict with one another.

In Frederick Music v. Sickler, 708 F.Supp. 587 (S.D.N.Y. 1989), the court held that a renewal term vests when the author files an application for renewal during the final year of the initial term, even if the author dies before December 31st of that year. Thus, under Frederick Music, if the author tranferred the renewal term (or licensed rights thereunder), the transfer (or license) is effective and is binding on the author's heirs (pursuant to Fred Fisher Music v. Witmark (see paragraph 8 above)).

On the other hand, in Marascalco v. Fantasy, Inc., 953 F.2d 469 (9th Cir. 1991), the court held that the renewal term does not vest until January 1st of the first year of the renewal term. Thus it appears from Marascalco that in Ninth Circuit cases, if an author dies after filing for renewal but before January 1st, transfers or licenses by the author are not effective; the heirs own the renewal term; and (under Miller Music v. Daniels and Stewart v. Abend) the continued exploitation of the author's work by a transferee, or of a derivative work by a licensee, is an infringement of the heirs' renewal copyright.

Frederick Music v. Sickler is much the wiser of the two opinions. For example, Copyright Office records reflect the names of those who apply for renewal, but not whether they died before the end of the year. Frederick

Music permits assignees, licensees and others to rely on Copyright Office records concerning renewal. Marascalco does not.

Moreover, even in the Ninth Circuit, Marascalco leaves important questions unanswered, because it involved very unusual facts and says nothing about how more common situations should be handled. The case involved a dispute over ownership of the renewal term of a song that had been jointly authored by two songwriters, both of whom were alive when the final year of the initial term began. While both were still alive, one of the songwriters filed an application to renew the copyright on behalf of both. The one who filed the application lived into the renewal term; the other died before the renewal term began. The dispute concerned ownership of the deceased songwriter's half interest. The deceased songwriter's interest was claimed by the company to which he had previously assigned it, and by the assignee of the deceased songwriter's daughters. Since the songwriter who applied for renewal lived into the renewal term, the renewal application was valid even though his co-author died, because even if a renewal application is made by only one co-author, the renewal is valid and benefits all co-authors. Melville Nimmer & David Nimmer, 2 Nimmer on Copyright section 9.05[E].

Suppose however that a work is written by a single author who: lives until the final year of the initial term; files an application for renewal in his or her own name; and then dies before the end of the year, leaving statutory successors who do not file for renewal in their own names. (The daughters of the deceased songwriter in Marascalco had not.) The law is clear that to be effective, a renewal application must be made in the name of the author or of the statutory successors entitled to renew. Neither assignment to, nor ratification by, the person entitled to renew will cure a registration that was not properly made in that person's name. 2 Nimmer on Copyright section 9.05[D]. Thus, under Marascalco, if a sole author files for renewal but dies before the year ends, leaving successors who do not file for renewal themselves, it is possible the renewal will not be effective and the work will go into the public domain. (Frederick Music does not produce this harsh result because it held that the renewal vests when applied for, even if the author then dies before the end of the year.)

The following chart highlights the different outcomes dictated by Frederick Music v. Sickler and Marascalco v. Fantasy; where the chart refers to what is "probably" the result in the Ninth Circuit, that result assumes that the work did not go into the public domain. The chart also compares the consequences of an application for renewal made by an author with those made by statutory successors. For 1963 and older works, automatic renewal is not available, and the chart illustrates the consequences of that as well.

AUTHOR FILED APPLICATION FOR RENEWAL BEFORE DYING

Assignment of renewal term by author is effective and renewal term is owned by assignee in S.D.N.Y. (and probably everywhere else except the 9th Circuit) [27]

but is not effective, and renewal term is (probably) owned by statutory successors, in 9th Circuit [28]

Grant of derivative work license for renewal term is effective in S.D.N.Y. (etc.) but not in the 9th Circuit, and:

-continued exploitation of a derivative work produced during initial term is permitted in S.D.N.Y. (etc.) but (probably) violates renewal term copyright (of underlying work) in the 9th Circuit

-production of new derivative works during renewal term is permitted in S.D.N.Y. (etc.) but (probably) violates renewal term copyright (of underlying work) in the 9th Circuit

Conveyance of renewal term to trust or by will is effective and renewal term is owned by trust or legatees in S.D.N.Y. (etc.) but ineffective and renewal term is (probably) owned by statutory successors in 9th Circuit

AUTHOR DID NOT FILE APPLICATION FOR RENEWAL; BUT AFTER AUTHOR'S DEATH, STATUTORY

SUCCESSORS FILED RENEWAL APPLICATION DURING FINAL YEAR OF INITIAL TERM

Assignment of renewal term by author is not effective and renewal term is owned by statutory successors [29]

Grant of derivative work license for renewal term is not effective, and:

-continued exploitation of a derivative work produced during initial term is not permitted [30]

-production of new derivative works during renewal term is not permitted [31]

Conveyance of renewal term to trust or by will is not effective and renewal term is owned by statutory successors [32]

RENEWAL APPLICATION WAS NOT FILED BY AUTHOR OR STATUTORY SUCCESSORS

The work went into the public domain, and renewal term is not owned by anyone

The work went into the public domain, and thus:

-continued exploitation of derivative work is permitted

-production of new derivative works, by anyone, is permitted

The work went into the public domain, and renewal term is not owned by anyone

Explanation (paragraph numbers refer to the numbers in the chart above):

27. This is the holding of Frederick Music v. Sickler, 708 F.Supp. 587 (S.D.N.Y. 1989).

28. This is the holding of Marascalco v. Fantasy, Inc., 953 F.2d 469 (9th Cir. 1991).

29. Where statutory successors apply for renewal, the renewal term vests in them, and thus assignments by the author are not effective. Copyright Act section 304(a)(2)(B)(i); Miller Music (see paragraph 1 above).

30. Where statutory successors apply for renewal, the renewal term vests in them, and thus derivative work licenses granted by the author are not effective. Copyright Act section 304(a)(2)(B)(i) (see paragraph 1 above); Stewart v. Abend (see paragraph 3 above).

31. The reason for this is the same as that set forth in paragraph 30 above.

32. The reason for this is the same as that set forth in paragraph 29 above.

The strategic choices for authors and their statutory successors

Because the consequences of filing a renewal application sometimes differ from the consequences of automatic renewal, authors and their statutory successors will be better off if they make the following choices.

If the author died prior to the final year of the initial term, the statutory successors should file an application for renewal, rather than rely on automatic renewal.

If the author lives until the renewal term commences, the author will be somewhat better off if a renewal application was filed during the final year of the initial term, because the renewal certificate will be prima facie evidence in a lawsuit, should one become necessary. However, the author should file the renewal application late in the year, rather than early in the year, for the following reason.

If the author of a work first published (or registered) between 1964 and 1977 dies during the final year of the initial term, after having transferred the renewal term copyright or rights thereunder, the author's statutory successors will be better off if the author had not filed a renewal application before dying. If the author did not file, the statutory successors should file a renewal application after the author has died, rather than rely on automatic renewal.

If the work in question was first published (or registered) in 1963 or earlier, there are no more choices to be made. An application to renew that work's copyright had to be filed by December 31, 1991, or else it went into the public domain.

The strategic choices for assignees and licensees

If the author died prior to the final year of the intial term, there is nothing an assignee or licensee can do thereafter to avoid the consequences. If agreements with the author's statutory successors were not entered into before the author's death, they will have to be after the author's death. Otherwise, continued exploitation (during the renewal term) of the author's work or a derivative work based on it will constitute copyright infringement.

If the author lives until the renewal term commences, there is nothing further an assignee or licensee must do, in order to be able to continue to exploit the author's work or derivative works based on it, during the renewal term. However, since continued perfection of a security interest during a renewal term may require registration of the renewal term, lenders or others who have been granted security interests in renewal terms should be certain those renewal terms are registered.

If the work in question was first published (or registered) between 1964 and 1977, renewal term assignees and licensees will be better off if a renewal application is filed while the author is still alive. Thus, if the agreement with the author authorizes the assignee or licensee to prepare and file documents with the Copyright Office (as such agreements often do), the assignee or licensee should file a renewal application as early in the final year of the intial term as possible, before the author has a chance to die. The application should be filed in the name of the author as renewal claimant and should be signed by the assignee or licensee as the "agent of the author." If the agreement does not contain such an authorization, the strategic choice for the assignee or licensee is the same. The law permits those with an equitable interest in a copyright to file necessary papers with the Copyright Office on behalf of the legal owner. The only issue in such a case would be whether someone with an equitable interest in a copyright may file a renewal application on behalf of someone else with a legal interest, where the interests of the equitable and legal owners conflict.

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NEW LEGISLATION & REGULATIONS

Copyright Act is amended to provide for automatic renewal of 1964-1977 works

Section 304(a) of the Copyright Act has been amended to provide for automatic renewal of the copyrights to works first published (or registered as unpublished works) in or since 1964. It is no longer necessary for authors or their statutory successors to file a Form RE with the Copyright Office, in order for their copyrights to be renewed for an additional 47 years.

The oldest works to which the new legislation applies are those dating back to 1964. Congress picked that year, because those are the works whose copyrights were due to be renewed by December 31st of this year, 1992. Works first published (or registered) in 1963 or earlier had to be renewed by the end of last year, 1991, before the new legislation became effective. Works first published in 1978 or since do not have to be renewed at all, because the duration of their copyrights is generally the life of the author plus 50 years.

Although it is no longer necessary to file an application to renew copyrights, there are still certain advantages to doing so. Nevertheless, in certain rare cases, automatic renewal may be more beneficial for some than renewal by registration. This subject is treated in the Legal Affairs article in this issue of the Entertainment Law Reporter (ELR 14:7:3).

Copyright Amendments Act of 1992, amending section 304(a) of the Copyright Act, 17 U.S.C. section 304(a) (June 26, 1992) [ELR 14:7:13]

Audio Home Recording Act permits manufacture and sale of digital audio recorders, provides for collection and distribution of digital recording royalties, and permits home audio taping

Congress has passed the Audio Home Recording Act of 1992 which codifies an agreement reached last year by representatives of the electronics, recording and music publishing industries. [ELR 13:4:18]

The Act adds a new Chapter 10 to Title 17 of United States Code (17 U.S.C. sectionsection 1001-1010) which does three things:

First, it prohibits the manufacture, importation and distribution of digital audio tape recorders unless they are equipped with circuitry that prevents copying from copies of digital audio recordings.

Second, it requires manufacturers and importers of digital audio tape recorders and digital audio tape (or other digital recording media) to submit to the Register of Copyrights quarterly and annual Statements of Account along with royalty payments.

Third, it prohibits copyright infringement actions for noncommercial digital or analog copying of musical recordings by consumers.

The royalty payments for digital recorders will be 2% of the "transfer price" (i.e., a domestic manufacturer's wholesale price excluding taxes; or an importer's "actual entered value" as reported to Customs, excluding freight, insurance and duties), but not less than $1 nor more than $12 per unit. For digital recording tape (or other digital recording media), the royalty will be 3% of the "transfer price."

Once collected, digital royalties will be divided among recording artists, record companies, song writers and music publishers pursuant to a very specific formula:

-- 66 2/3 % of the royalties will be allocated to a sound recordings fund: 2 5/8 % of which shall be distributed to nonfeatured musicians; 1 3/8 % of which shall be distributed to nonfeatured vocalists; 40 % of the balance of which shall be distributed to featured recording artists; and 60 % of the balance of which shall be distributed to record companies.

-- 33 1/3 % of the royalties will be allocated to a musical works fund: 50 % of which shall be distributed to music publishers; and 50 % of which shall be distributed to songwriters.

If there is a dispute among the members of any group entitled to distributions, the Copyright Royalty Tribunal will conduct a proceeding to determine the distribution of royalties among those members.

Audio Home Recording Act of 1992, amending Title 17 United States Code by adding Chapter 10, 17 U.S.C. sections 1001-1010 (1992) [ELR 14:7:13]

Copyright Act is amended to provide that unpublished works are eligible for "fair use" treatment

Congress has amended the "fair use" section of the Copyright Act to provide that the use of unpublished (as well as published) works may be a "fair use."

The new law adds the following sentence to the end of section 107: "The fact that a work is not published shall not itself bar a finding of fair use if such finding is made upon consideration of all of the above factors."

The factors set forth in the section are: (1) the purpose of the use; (2) the nature of the work copied; (3) the amount and substantiality of the portion copied; and (4) the effect of the use on the work's potential market or value.

The amendment was sought by book publishers and scholars who have been concerned about decisions of the Second Circuit Court of Appeals holding that biographers of J.D. Salinger and L. Ron Hubbard had made infringing and unfair uses of unpublished letters. [See, Congress Resumes Consideration of Fair Use of

Unpublished Works Issue by Michael R. Klipper, ELR 13:2:3]

By the time Congress voted on the amendment, there was some question as to whether it was necessary any longer or would change existing law in any way, even in the Second Circuit, because in a 1991 case involving a biography of author Richard Wright, that very court held that the biographer's use of Wright's unpublished letters was a fair use. (ELR 14:1:5)

PL 102-492, amending Copyright Act section 107, 17 U.S.C. section 107 (1992) [ELR 14:7:13]

Congress overrides President Bush's veto to enact cable TV bill containing provisions for rate regulation, signal carriage obligations, and retransmission consent

On October 5, 1992, Congress enacted the Cable Television Consumer Protection and Competition Act of 1992, over President Bush's veto.

Rate regulation

The statute limits the authority of federal or state agencies to regulate the rates for providing cable service, except as provided by the statute, leaving franchising authorities with the responsibility for setting such rates for cable systems "or any other communications service provided over a cable system to cable subscribers." Neither federal, state, nor local authorities may regulate the rates set by cable systems that are owned or operated by a local government or franchising authority if such a cable system is the only such system located within a particular jurisdiction.

If the Federal Communications Commission finds that a cable system is subject to effective competition, the rates for the system may not be regulated by the Commission or by a state or franchising authority.

If the Federal Communications Commission determines that a cable system is not subject to effective competition, the franchising authority, or the Commission, may set the rates for providing basic cable service, pursuant to prescribed regulations and procedures.

The Commission has undertaken to insure, by regulation, that the rates for the basic service tier of cable service are reasonable. The regulations will be designed "to achieve the goal of protecting subscribers of any cable system that is not subject to effective competition from rates for the basic service tier that exceed the rates that would be charged for the basis service tier if such cable system were subject to effective competition." The statute sets forth the factors relevant to rate determinations.

The statute further provides that the Commission's regulations will include standards to establish, on the basis of actual cost, the price or rate for the installation and lease of equipment used by subscribers, and that a cable operator will be required to provide advance notice to a franchising authority of any increase proposed in the price for the basic service.

The minimum components of the basic service tier, according to the statute, must include all signals carried in fulfillment of the requirements of sections 614 and 615 of the Communications Act; any public, educational, and governmental access programming required by the cable system's franchise; and "any signal of any television broadcast station that is provided by the cable operator to any subscriber, except a signal which is secondarily transmitted by a satellite carrier beyond the local service area of such station." Cable operators may add signals or services to the basic service tier, at rates determined, again, pursuant to the regulations set by the Commission.

The regulations will include standards to establish the price or rate for the installation of equipment and for items such as converter boxes, and to identify the costs attributable to satisfying franchise requirements to support public, educational, and governmental channels.

The Commission, within 180 days after the enactment of the statute, has been directed to establish criteria for identifying, in individual cases, whether the rates for cable programming services are unreasonable.

Signal carriage obligations

The statute, after setting forth definitions of "effective competition" and "cable programming service," announces the carriage obligations of each cable operator. Cable systems with twelve or fewer usable activated channels must carry the signals of at least three local commercial television stations, unless the system has 300 or fewer subscribers and does not delete from carriage any signals of a broadcast television station. A cable system with more than twelve usable activated channels is required to carry the signals of local commercial television stations, up to one-third of the aggregate number of usable activated channels of the system.

Standards to be applied by a cable operator in selecting which local commercial stations shall be carried are set forth. The statute then states that a cable operator may not accept or request a fee for the carriage of local commercial television stations to fulfill the requirements of the statute or for the channel positioning rights, except that a local commercial television station may be required to pay the costs of delivering a good quality signal. And cable operators may accept payments from stations which would be considered distant signals as indemnification for any increased copyright liability resulting from the carriage of such signal. The statute also describes the cable operator's carriage requirements for noncommercial educational television stations.

Retransmission consent

After October 5, 1993, cable systems (and other multichannel video programming distributors) are prohibited from retransmitting the signals of television stations except with their "express authority." Since this provision would conflict with the Act's signal carriage obligations, each television station must make an election between its right to have its signals carried by cable systems in its area and its right to grant or withhold retransmission consent. If a station elects to take advantage of its retransmission consent right, cable systems are no longer obligated by statute to carry that station's signals.

The Federal Communications Commission will be adopting regulations (by April 1993) governing stations' elections between their rights of retransmission consent and signal carriage. In doing so, the Act directs the Commission to take into account "the impact that the grant of retransmission consent by television stations may have on the rates for the basic service tier" and to ensure "that the rates for the basic service tier are reasonable."

Finally the Act recites that its retransmission consent provisions do not modify the compulsory cable copyright license (in section of 111 of the Copyright Act). Nor do the retransmission consent provisions affect "existing or future video programming license agreements between broadcasting stations and video programmers."

The interaction between retransmission consent and the cable compulsory license is likely to be an issue taken up by the 103rd Congress after it convenes next month. This is so, because despite the disclaimer in the Cable Act, its retransmission consent provisions most certainly do modify - in a practical sense - the cable compulsory license, especially as the compulsory license applies to television programs, such as news programs, produced by television stations themselves. That is, the cable compulsory license permits cable systems to retransmit such programming, while the retransmission consent provision of the Cable Act prohibits retransmission of such programming without the consent of the station. As a consequence, the new retransmission consent provision may turn out to be the first step in the eventual elimination of the cable compulsory license now found in the Copyright Act.

Lawsuit challenges Act's Constitutionality

In response to a lawsuit filed by Turner Broadcasting System and other cable operators, the United States Justice Department has announced that it will not defend the provision requiring cable operators to reserve up to a third of their channels for local broadcast stations. Cable programmers oppose the "must carry" provision as a restriction on access. The Justice Department, according to news reports, advised President Bush before he vetoed the statute that the must carry provision was unconstitutional. According to news accounts, the court before which the case is pending has stayed the action until President-elect Clinton is sworn in and a new Attorney General has been appointed. Apparently the court wants to see whether the Clinton administration's Justice Department will defend the constitutionality of the Act.

The Cable Television Consumer Protection and Competition Act of 1992 (Oct. 5, 1992) [ELR 14:7:14]

RECENT CASES

Copyright renewal term belongs to author's heirs if author dies before renewal term begins, even if author was living when renewal application was filed with Copyright Office, 9th Circuit rules

Last year, the Ninth Circuit Court of Appeals held that a copyright renewal term belongs to an author's heirs if the author dies before the renewal term begins, even if the author was still living when an application for renewal was filed with the Copyright Office. The Ninth Circuit's opinion conflicted with an earlier decision involving similar facts rendered by a court in the Southern

District of New Court. Nevertheless, the Supreme Court denied a petition for certiorari.

Earlier this year, Congress enacted legislation concerning copyright renewals, one provision of which dealt with the issue addressed in the two conflicting decisions. The new legislation rejects the approach taken by the Ninth Circuit and instead adopts the position taken in the Southern District of New York. However, because the new legislation deals only with works first published (or registered as unpublished works) in or since 1964, the Ninth Circuit decision is still relevant, in the Ninth Circuit, with respect to the renewal of pre-1964 works.

This topic, and the continuing role of the Ninth Circuit opinion, are addressed in the Legal Affairs article appearing in this issue of the Entertainment Law Reporter (ELR 14:7:3).

Marascalco v. Fantasy, Inc., 953 F.2d 469 (9th Cir. 1991) [ELR 14:7:16]

Court denies SportsChannel's attempt to prevent National Hockey League from granting broadcast rights to ESPN

A 1991 agreement between SportsChannel America Associates and the National Hockey League for broadcast of hockey games during the 1991-1992 season, in part, gave the league an option to renew for the 1992-1993 season and required the league to submit to SportsChannel the price it would accept for future broadcasts. If SportsChannel was unwilling to pay the league's price, the league was free to grant the broadcast rights to a third party, albeit on the same terms as those in the SportsChannel agreement.

The league apparently sought an $18 million fee for the broadcast rights for 1992-1993 season. SportsChannel declined to pay the fee, and the league granted the rights to ESPN which agreed to pay $18.1 million for the first year of a five year term and other amounts during the next four years.

SportsChannel claimed that the agreement with ESPN was designed to avoid SportsChannel's rights because the terms and conditions of the agreement were more favorable than those in the league's agreement with SportsChannel.

A New York trial court, assuming for purposes of SportsChannel's motion for a preliminary injunction, that the SportsChannel agreement provided that the league might accept a third party's offer of a higher fee only if the terms and conditions would be no different from those in the agreement with SportsChannel, nevertheless found that SportsChannel failed to show the requisite irreparable harm.

The league argued that an injunction restraining the league from entering into and/or complying with the ESPN agreement would make it unlikely that any of the 1992-1993 season's games would be broadcast, resulting in lost revenue and a disappointed audience. Furthermore, SportsChannel most likely was aware, for several months prior to seeking an injunction, of the league's negotiations with ESPN. Without deciding whether laches would bar SportsChannel's claim, Judge Fingerhood stated that the broadcaster's failure to take action weighed against it on the balance of the equities.

The court, in denying SportsChannel's motion for a preliminary injunction, also found that there was "some question" as to whether SportsChannel would succeed on the merits of its claim for injunctive relief.

SportsChannel America Associates v. National Hockey League, New York Law Journal, p. 25, col. 2 (N.Y.Cnty., Sep. 24, 1992) [ELR 14:7:16]

Dismissal of Denver cable operator's antitrust action against Turner Network Television is upheld

TV Communications Network, a supplier of cable television and satellite master antenna television, brought an antitrust action against ESPN and other parties. A Federal District Court in Colorado dismissed the company's complaint for failure to state a claim upon which relief could be granted (ELR 13:3:8) and a Federal Court of Appeals has affirmed the District Court's decision.

ESPN, Capital Cities/ABC, Inc., Tele-Communications, Inc., United Artists Entertainment Co., American Television and Communications Corp., Scripps Howard Cable Company, Scripps Howard Communications, and Mile Hi Cable Co. settled out of court and were not parties to the appeal.

TVCN alleged that Turner Network Television monopolized the market for the Turner Channel in metropolitan Denver. But Judge Brorby found that TVCN failed to allege a relevant market. Although TVCN claimed that the Turner Network Television channel was the relevant product market monopolized by Turner, the court observed that a company does not violate the Sherman Act by the natural monopoly it holds over its own product.

On appeal, TVCN alleged that the relevant product market was subscription television programming or sports programming. TVCN's new definition of the relevant market "mischaracterize[d] the allegations in the amended complaint," and the relevant market, as defined in the amended complaint, was defective as a matter of law. TVCN failed to state a monopolization claim against Turner and the District Court correctly dismissed TVCN's monopolization and attempt to monopolize, and conspiracy to monopolize claims.

The court also found that TVCN did not establish claims under section 1 of the Sherman Act based on price fixing, a group boycott, or refusal to deal; affirmed the dismissal of TVCN's pendent state law claims without prejudice; and found that the District Court did not abuse its discretion by denying TVCN leave to file a third complaint.

TV Communications Network, Inc. v. Turner Network Television, Inc., 964 F.2d 1022 (10th Cir. 1992) [ELR 14:7:16]

Embassy Pictures obtains summary judgment in dispute over videocassette distribution rights

In 1985, Geoquest Productions produced a murder mystery videocassette program entitled "The Gold Key;" the company planned to sell the program in video stores, and to award a $100,000 prize to the first purchaser of the videocassette who solved the mystery. Geoquest engaged in negotiations with Embassy Home Entertainment concerning distribution rights. A letter agreement drafted by Embassy referred to a "shortfall provision" whereby if the revenues from the film did not meet Embassy's advertising expenditures, Geoquest would pay Embassy the shortfall upon proof of such expenditures. Although Geoquest did not sign this letter agreement, the company signed a subsequent draft.

By the December 1985 cut-off date for sales, Embassy had sold only 5,700 copies of the program. After

Embassy deducted returns from the sales revenues, Geoquest received no payments from Embassy.

Geoquest claimed that Embassy had made an oral promise to sell 100,000 copies of the videocassette as part of the parties' agreement, and that Geoquest altered its pricing structure based upon the alleged promise.

An Illinois trial court granted Embassy's motion to bar parol evidence concerning the alleged oral promise. The court found the written agreement complete and unambiguous, and stated that if an oral contract existed, it was absorbed into the written agreement. Geoquest then voluntarily dismissed its breach of contract claim. The court proceeded to grant Embassy's motion for summary judgment on Geoquest's claim for breach of an oral promise.

An appellate court has found that the letter agreement was an integrated agreement and that the trial court properly excluded parol evidence. It was noted that the language of the agreement indicated that the parties intended to be bound by the letter document, and that the agreement was signed by both parties after extensive negotiations and revisions. Embassy's agent may have referred to sales in excess of 100,000 videocassettes, but the parties did not intend to include the sales projection as a term of the distribution agreement.

Judge McNamara commented that under the circumstances of the case, if the parties intended to make the alleged guarantee a term of their agreement, they would have included it in the written documents that the parties signed. The court, accordingly, concluded that the parties intended to be bound by the revised letter agreement, and that it was not necessary to determine whether the alleged minimum sales guarantee was a provision consistent with the contract.

Geoquest Productions, Ltd. v. Embassy Home Entertainment, 593 N.E.2d 727 (Ill. App. 1992) [ELR 14:7:17]

Court rejects marketing manager's claims of co-ownership of manuscript, breach of contract, and unjust enrichment

In April 1989, Joseph A. Price and Joseph M. Price, M.D. entered an agreement with Roy E. Schwasinger and Earl E. Marian whereby Schwasinger and Marian agreed to market a book written by Dr. Price entitled Coronaries/Cholesterol/Chlorine-Revised Edition.

Schwasinger and Marian never published the Price manuscript, but Schwasinger claimed that he produced a manuscript entitled Diet/Coronaries/Cholesterol/ Chlorine.

In response to Schwasinger's action seeking coownership of the copyright for the Diet work, a Federal District Court in Kansas granted the Price parties' motion for summary judgment. The court found that the first seven chapters of the Diet work were "taken virtually word for word" from the first edition of Price's book.

It was observed that the Price parties did not breach the marketing agreement - they provided the manuscript to Schwasinger in accordance with the agreement and no further performance was required. The court then rejected Schwasinger's unjust enrichment claim, finding that the Price parties received no profits from the Diet work. And Judge Theis concluded by finding that Schwasinger was not the author or coauthor of Diet and therefore had no right to bring a copyright infringement action.

Schwasinger v. Price, 789 F.Supp. 347 (D.Kans. 1992) [ELR 14:7:17]

Art dealer may proceed with action against estate of Hal B. Wallis because parties' settlement agreement did not violate rule against perpetuities or unreasonably restrain alienation of paintings

In 1982, Wildenstein & Co., pursuant to a settlement agreement returned a Monet painting and a Gaugin painting to art collector Hal Wallis, now deceased. Wallis granted Wildenstein a right of first refusal to purchase and an exclusive right of consignment with respect to fifteen specified paintings in Wallis's collection. Wildenstein eventually sued the Wallis estate and other parties alleging the violation of the art dealer's rights under the settlement agreement.

A Federal District Court in New York dismissed Wildenstein's complaint, finding that the restrictions imposed by the agreement on the transferability of the art works unreasonably restrained alienation and were invalid (ELR 13:3:14).

A Federal Court of Appeals certified four questions to the New York Court of Appeals. The court determined that neither New York's statutory rule against perpetuities nor the common law rule against unreasonable restraints on alienation applied to invalidate Wildenstein's rights, and found it unnecessary to consider the remaining two questions relating to alternative relief.

Judge Bellacosa noted that after Wallis's death in 1986, most of the paintings in the collection were distributed to the Hal B. Wallis Foundation, a tax-exempt charitable organization, which planned to have the paintings displayed at the Los Angeles County Museum of Art.

A Renoir painting which was covered by the settlement agreement passed to Wallis's son, who sold the work for $750,000. Wildenstein learned that the foundation intended to sell other paintings listed in the settlement agreement, and sued the Wallis parties.

Judge Bellacosa recalled that both the statutory rule against perpetuities and the common law rule against unreasonable restraints on the alienation of property sought to balance society's interest in "the free alienability of property and the rights of owners to direct future transfers." After reviewing the history and purposes underlying the rule against perpetuities and the commercial and precedential context of the instant proceeding, the court concluded that the rule against remote vesting would not apply to the preemptive and exclusive consignment rights in issue.

The court pointed out that Wildenstein was required to meet a third party's offer if the art dealer chose to exercise its preemptive right, thereby allowing the Wallises to realize the highest possible price upon selling any of the paintings subject to the agreement. The preemptive and exclusive consignment rights served "significant commercial interests," stated the court, "by facilitating broader marketing of world-renowned art treasures while posing, at the most, only a minimal limitation on the alienability of the works," and thus were not subject to the rule against perpetuities.

The common law rule against unreasonable restraints on alienation also did not invalidate Wildenstein's rights under the agreement, in view of the reasonableness of the price, duration and purpose of Wildenstein's first refusal and exclusive consignment rights, concluded the court.

Judge Hancock, in a concurring opinion, agreed with the court's conclusions, but would not have found it necessary to consider whether the statutory rule against perpetuities applied to preemptive options. Judge Hancock noted that nothing in the agreement indicated that the parties expected it to be enforced against anyone other than the Wallises or their executors, or at any time after the Wallises' deaths except during the administration of their estates.

Wildenstein & Co., Inc. v. Wallis, 584 N.Y.S.2d 753; 595 N.E.2d 828 (N.Y. 1992) [ELR 14:7:18]

Court orders accounting to resolve joint venturers' dispute over sale of art from Mamma Leone Restaurant

In 1987, Daniel B. Grossman, Inc. and Ira Spanierman entered into an oral agreement to purchase the art collection of Eugene Leone, the founder of Mamma Leone

Restaurant in New York City. In 1991, Spanierman announced, to trade publications, museums and art dealers, the availability of several sculptures from the collection. Grossman claimed that he had retained the sole right to direct the marketing of the works of art and alleged that the unauthorized publicity concerning the sculptures breached the joint venture agreement and violated Spanierman's fiduciary duty.

Grossman also challenged Spanierman's sale, for $100,000, of a sculpture entitled "Ruth Gleaning." When Grossman declined to confirm the sale, Spanierman refused to remit to Grossman his $50,000 share of the proceeds. Grossman claimed that the parties had agreed to a minimum price of the statute in excess of $100,000, and that Spanierman breached the contract by concluding the sale. Grossman also claimed that Spanierman, by retaining Grossman's $50,000 share of the sale proceeds, improperly converted Grossman's property.

A New York trial court has ruled that an accounting would be required to resolve the validity of the parties' claims, including Grossman's causes of action arising out of a 1989 joint venture agreement with Spanierman to sell a painting by William Adolphe Bouguereau entitled "Reve de Printemps."

Daniel B. Grossman, Inc. v. Spanierman, New York Law Journal, p. 22, col. 2 (N.Y.Cnty., Oct. 21, 1992) [ELR 14:7:19]

Dispute over control of endowment fund for Baltimore arts festival is remanded

The Baltimore Arts Festival, Inc., a nonprofit corporation, was authorized by the city to present an arts program known as "Artscape '82." In subsequent years, the costs for the program exceeded the payments made by the city, but the Festival made up the deficit and accumulated a surplus of about $600,000 from sources such as contributions from private donors, sales of items during Artscape, rental fees paid by food and craft vendors, money raised from two Artscape balls, etc.

In 1986, the Festival, prior to a pending change in management, transferred almost all of its funds to the Maryland Community Foundation, Inc., another nonprofit corporation. The gift was to be used to support Artscape or to sponsor performances and presentations of the visual and performing arts in Baltimore; any funding was subject to the consultation of an advisory committee comprised of the then-existing management of the Festival.

The city sought to impose a constructive trust upon the funds transferred by the Festival. A trial court judge directed the Festival and the Foundation to turn over all of their "Artscape funds" to the city to be used, under the continuing supervision of the court, for Artscape events.

The Maryland Court of Appeals granted certiorari before the case was considered by an appellate court and has vacated the trial court order granting summary judgment and remanded the case for further proceedings.

Judge McAuliffe stated that the trial court erred in ruling that the funds received from any source for Artscape were public funds subject to the city's control, because "the fact that a charitable corporation raises money to benefit members of the public within a city does not mean that the funds of that corporation become city funds, or that they are subject to control by the city."

The Festival argued that it received no funds from the city except in the form of reimbursement for documented expenses - any city funding thus already had been spent for previous Artscape presentations.

Judge McAuliffe pointed out that the triable issues were raised as to the extent of the parties' contributions to staging Artscape, and as to whether donors may have been misled concerning the use to be made of any gifts. The court also recalled, without expressing any view of the merits of the argument, the "broad authority" for the principle that "in the absence of an express reservation or condition imposed at the time the gift is made, a donor may not ordinarily seek the aid of a court for the imposition of a constructive trust upon a charitable trust, and that an action for the protection of general donors or public beneficiaries ordinarily should be brought by the Attorney General.

Baltimore Arts Festival, Inc. v. Mayor and City Council of Baltimore, 607 A.2d 1 (Md. 1992) [ELR 14:7:19]

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