RECENT CASES

California trial court strikes Elizabeth Taylor's request for injunction barring broadcast of unauthorized TV biography

"Whose life is it, anyway?" That is the question Elizabeth Taylor has asked -- in more legal language -- in a recently-filed lawsuit against NBC, a lawsuit that was triggered by news that the network intends to broadcast an as-yet unproduced docudrama about her life and career. The renowned actress probably expected the courts to agree with her view that the story of her life is hers, or at least her name is, and that NBC may not use them without her permission, which she had not given. A California trial court judge has ruled against Ms. Taylor, however, in an early but significant phase of the case.

This is not the first time Ms. Taylor has asked whose life hers is, in a lawsuit against a television network. In 1982, she filed a similar lawsuit in New York against ABC and Paradine Television, when they had announced their plans to produce and broadcast an unauthorized docudrama to be called "The Elizabeth Taylor Story." Not long after that New York suit was filed, ABC announced that it had decided not to proceed with the project for "creative reasons." (See, Lionel S. Sobel, "The Trials and Tribulations of Producing Docu-Dramas: Tales of Elizabeth Taylor, John DeLorean and Network Program Standards," ELR 5:3:3 (Aug. 1983).)

Ms. Taylor's recent complaint was filed in Los Angeles against NBC and Lester Persky Productions (the company that is producing the new docudrama). In it, Ms. Taylor originally sought to enjoin the defendants from creating, promoting or broadcasting "any television production purporting to dramatize the life and career of

Ms. Taylor or in any manner bearing the . . . name `Elizabeth Taylor' or any imitation or derivation of [her] name, image, trademark or service mark." In response to her complaint, NBC and Persky made a motion that asked the court to strike the request for an injunction. And in a ruling issued September 12, 1994, California Superior Court Judge Diane Wayne did so. The judge gave Ms. Taylor's lawyers 10 days to amend the complaint and they did.

In her amended complaint, Ms. Taylor sought to enjoin (1) "use of her name or image to infringe upon her trademark to promote the mini-series solely for defendants' private profit," (2) "use of her trademark and tradename by a commercial use for private commercial purposes," and (3) use of another actress to portray [Ms. Taylor] in a fashion which is not intended to be a parody, but rather a factual presentation of [her]."

NBC and Persky again asked Judge Wayne to strike the complaint's request for an injunction, and she has done so again, this time without leave to amend. In a ruling issued September 29, 1994, Judge Wayne ruled that the requested injunction would amount to an unconstitutional prior restraint. The ruling does not bring the case entirely to an end however, because Ms. Taylor's complaint also seeks damages if NBC and Persky proceed with their docudrama plans.

Because of the significance of this case to the entertainment industry, and because California Superior Court rulings are not published (the way trial court decisions in New York often are), the full text of Judge Wayne's September 29th ruling is reproduced below.

Elizabeth Taylor v. National Broadcasting Co.

Superior Court of California, County of Los Angeles, Case No. BC 110922, September 29, 1994

Judge Diane Wayne

Motion to Strike: Grant without leave to amend

A motion to strike is the proper method to attack an improper remedy. See Weil & Brown, California Practice Guide: Civil Procedure Before Trial, Chapter 7, section 7:42.1, p. 7-16, and cases cited therein. The grounds for a motion to strike must appear on the face of the pleading or from matters judicially noticeable. CCP section 437. Leave to amend should be granted where the defect may be cured by additional allegations.

See Grieves v. Superior Court (1984) 157 Cal.App.3d 159, 168.

"[U]necessarily protracted litigation would have a chilling effect upon the exercise of First Amendment rights," and as such, "speedy resolution of cases involving free speech is desirable." Good Government Group of Seal Beach, Inc. v. Superior Court (1978) 2 Cal.3d 672, 685 (citing Dombrowski v. Pfister (1965) 380 U.S. 79, 486-487). Accord Environmental Planning & Information Council v. Superior Court (1984) 36 Cal.3d 188, 190; Bill v. Superior Court 1982) 137 Cal.App.3d 1002, 1014-1015.

In the instant case, plaintiff has amended her complaint by eliminating her request to enjoin the entire mini-series. Instead, plaintiff seeks to enjoin (1) "use of her name or image to infringe upon her trademark to promote the mini-series solely for defendants' private profit," (2) "use of her trademark and tradename by a commercial use for private commercial purposes," and (3) use of another actress to portray [plaintiff] in a fashion which is not intended to be a parody, but rather a factual presentation of [plaintiff]." First Amended Complaint, pp. 4-5.

The court finds that under the facts alleged, the remedy of injunction is not available as it constitutes an unconstitutional prior restraint against expression protected by the First Amendment. Moreover, because there is no reasonable possibility that these defects may be cured by additional allegations, the court will not grant further leave to amend.

I. Prior restraints are constitutionally disfavored.

A prior restraint "is a form of infringement upon freedom of expression to be especially condemned." Joseph Burstyn, Inc. v. Wilson (1952) 343 U.S. 495, 503 (citing

Near v. Minnesota (1931) 83 U.S. 697). Thus, any prior restraint against protected expression is presumptively constitutionally infirm. Id. at 503504; Near, supra, 283 U.S. at 716; Nebraska Press Assn. v. Stuart (1976) 427 U.S. 539.

In a recent decision, the Supreme Court in CBS Inc. v. Davis (1994) 510 U.S._, 127 L.Ed.2d 358 held that the "most extraordinary remedy" of a prior restraint may be granted only in "exceptional cases" in which "the evil that would result from the reportage is both great and certain and cannot be mitigated by less intrusive measures." CBS Inc. v. Davis supra, 127 L.Ed.2d at 361 (citing Near, supra, 283 U.S. at 716; New York Times Co. v. United States (1971) 403 U.S. 713; Nebraska Press, supra, 427 U.S. at 562).

Thus, "subsequent civil proceedings," i.e. actions for damages, rather than a prior restraint, are normally "the appropriate sanction for calculated defamation or other misdeeds in the First Amendment context." CBS Inc. v. Davis, supra, 127 L.Ed.2d at 361.

II. This series is entitled to protection.

Contrary to plaintiff's contention, the mini-series is not pure "commercial speech" subject to lesser protection under First Amendment doctrine.

A. Television broadcasting is protected expression.

It is well-settled that entertainment, which includes television broadcasting, is a form of expression protected by the First Amendment. See Schad v. Mount Ephraim (1981) 452 U.S. 61, 65; Hunt v. National Broadcasting Co. (9th Cir. 1989) 872 F.2d 289; Olivia N. v. National Broadcasting Co. (1977) 74 Cal.App.3d 383, 388. Entertainment has long been afforded First

Amendment protection. Guglielmi v. Spelling-Goldberg Productions (1979) 25 Cal.3d 860.

Indeed, matters in the public interest include "magazines and books, radio and television [which] may legitimately inform and entertain the public with the reproduction of past events, travelogues and biographies." Carlisle v. Fawcett Publications (1962) 201 Cal.App.2d 733, 746.

There are certain limitations to the scope of protection provided by the First Amendment: obscene speech; libel, slander, misrepresentation, obscenity, perjury, false advertising, solicitation of crime, complicity by encouragement, and conspiracy; speech or writing that is an integral part of conduct in violation of a valid criminal statute; and speech directed to inciting or producing imminent lawless action and likely to incite or produce such action. McCollum v. CBS, Inc. (1988) 202 Cal.App.3d 989, 1000 (citing Miller v. California (1973)

413 U.S. 15, 23, 34-35; Koningsberg v. State Bar (1961) 366 U.S. 36, 49, n. 10; Giboney v. Empire Storage Co. (1949) 336 U.S. 490, 498; Brandenburg v. Ohio (1969) 395 U.S. 444, 447-448).

These exceptions do not apply to the facts of the case at bar.

B. Commercial speech jurisprudence is inapplicable to the facts of this case.

Plaintiff contends that the mini-series is a commercial product which capitalizes on her name, life and career, and which contains damaging falsehoods. Thus, plaintiff reasons, the miniseries is not entitled to any First Amendment protection and therefore the requested injunction would not be an unconstitutional prior restraint.

The United States Supreme Court has expressly recognized that operation for profit does not exclude motion pictures, books, newspapers or magazines from protection by the First Amendment. Joseph Burstyn, Inc., supra, 343 U.S. at 501-502; Time, Inc. v. Hill (1967) 385 U.S. 374, 397.

"Commercial speech" has been defined as "expression related solely to the economic interests of the speaker and its audience." Central Hudson Gas & Electric Corp. v. Public Service Commission (1980) 447 U.S. 557, 561 (citing Virginia Pharmacy Board v. Virginia Citizens Consumer Council (1976) 425 U.S. 748, 762; Bates v. State Bar of Arizona (1977) 433 U.S. 350, 363-364; Friedman v. Rogers (1979) 440 U.S. 1, 11).

Commercial speech, as opposed to other forms of expression, has been defined as "speech proposing a commercial transaction, which occurs in an area traditionally subject to government regulation . . . . [Citations.]" Central Hudson, supra, 447 U.S. at 562. Thus, the United States Supreme Court has accorded "lesser protection to commercial speech than to other constitutionally guaranteed expression." Central Hudson, supra, 447 U.S. at 563; Ohralik v. Ohio State Bar Assn. (1978) 436 U.S. 447, 456.

These cases, however, typically involve government regulation of purely commercial advertising. See e.g., Posadas de Puerto Rico v. Tourism Company of Puerto Rico (1986) 478 U.S. 328 (advertising of gambling casino); Central Hudson, supra, 447 U.S. 557 (public utility advertising); Virginia Pharmacy, supra, 425 U.S. 748 (advertising of prescription drugs); Pittsburg Press Company v. Pittsburgh Commission on Human Relations (1973) 413 U.S. 376 (help-wanted advertisements) n1; Capital Broadcasting Co. v. Mitchell (D.C. 1971) 333 F.Supp. 582, summarily aff'd sub nom Capital Broadcasting Co. v. Acting Attorney General (1972) 405 U.S. 1000 (electronic media advertising of cigarettes). [n1 Because the case involved newspaper advertisements, plaintiff has cited Pittsburgh Press to support her claims. However, the United States Supreme Court has interpreted its decision in Pittsburgh Press as holding that the ordinance prohibiting newspapers from listing employment advertisements which were in separate columns for male and female applicants was permissible because the discriminatory hiring proposed by the advertisements and the layouts were themselves illegal. Virginia Pharmacy, supra, 425 U.S. at 759.]

In commercial speech cases, the Court has issued a prior restraint only when the matter involved speech which was constitutionally offensive (illegal) and could be prohibited. See Carey v. Population Services International (1977) 431 U.S. 678 (struck down ban on advertisement or display of contraceptives); Bigelow v. Virginia (1975) 421 U.S. 809 (reversed criminal conviction based on advertisement of an abortion clinic); Posadas, supra, 478 U.S. at 345.

The case at bar does not concern governmental regulation or purely commercial speech. Rather, the broadcast in question involves an expressive idea as opposed to "speech proposing a commercial transaction."

III. A prior restraint is not permitted in this case.

The intended mini-series involves a biography which, even if defamatory, is permitted to be aired under the prior restraint rules. It is not "trumped" by causes of action for invasion of privacy, trademark/trade name infringement, and/or unfair competition.

A. Generally an injunction is an unauthorized prior restraint.

In Goldblum v. National Broadcasting Corp., (9th Cir. 1978) 584 F.2d 904, the Ninth Circuit panel compared an order requiring a broadcaster to produce a television film for review by the trial court for "inaccuracies" to an injunction prohibiting broadcast and vacated the order, stating that:

"It is a fundamental principle of the first amendment that the press may not be required to justify or defend what it prints or says until after the expression has taken place. [Citations.] The Government has been prohibited from interfering with the editorial process by entering the composing room to give directives as to the content of expression. [Citations.] The district court proceedings here intervened in the editorial process by ordering an official of the broadcasting company to produce a film just before its scheduled broadcast so that it could be examined for inaccuracies. A procedure thus aimed toward prepublication censorship is an inherent threat to expression, one that chills speech."

584 F.2d at 907. In rejecting respondent Goldblum's argument that the broadcast of the movie would impinge upon his constitutional right to a fair trial, the court applied the Nebraska Press standard for issuance of a prior restraint. Id. at 906.

Plaintiff erroneously argues copyright cases to invalidate the above proposition. An author of a copyrighted work may seek a preliminary injunction against broadcast of a made-for-television movie as to those portions of the movie which infringe upon the copyright owner's rights. In re Capital Cities/ABC, Inc. (11th Cir. 1990) 918 F.2d 140. However, injunctive relief provided by the federal Copyright Act is an "implementation of a constitutional directive [contained in Article 1, section 8, Clause 8 of the United States Constitution] to encourage inventors by protecting their exclusive rights in their discoveries." Id. at 144. Thus, in copyright cases, courts have found that "the first amendment is not a license to trammel on legally recognized rights in intellectual property." Dallas Cowboys Cheerleaders, Inc. v. Scoreboard Posters, Inc. (5th Cir. 1979) 600 F.2d 1184, 1188; In re Capital Cities, supra, 918 F.2d at 143-144.

The facts of the instant case do not support a prior restraint. Plaintiff does not assert such constitutionally mandated rights such as a defendant's right to a fair trial or a copyright owner's rights.

B. Unauthorized commercial use of name and likeness; Lanham Act claims.

Plaintiff argues that the interest in free speech by defendants may be enjoined because of her right of privacy. The only time that this right has prevailed as against First Amendment claims has been in the purely commercial arena or when the activity has been for the purpose of attracting trade. Such is not the case in the matter herein.

1. Right of Publicity

In Eastwood v. Superior Court (1983) 149 Cal.App.3d 409, 417, the court defined the elements of a common law claim for invasion of rights of publicity to include:

". . . (1) the defendant's use of plaintiff's identity; (2) the appropriation of plaintiff's name or likeness to defendant's advantage, commercially or otherwise; (3) lack of consent; and (4) resulting injury. [Citations.]

"In addition, to plead the statutory remedy provided in Civil Code section 3344, there must also be an allegation of a knowing use of the plaintiff's name, photograph or likeness for purposes of advertising or solicitation of purchases. [Citations.]"

Because a person often expends considerable amounts of time, money and energy to develop recognition of his/her name and likeness, the private interests of the right of privacy and the right of publicity must be weighed against the public interest in public persons such as celebrities. Eastwood, supra, 149 Cal.App.3d at 421-422.

Constitutional protection is not limited to factual works but is extended to all expressive works, whether factual or fictional. Therefore, "an action for infringement of the right of publicity can be maintained only if the proprietary interests at issue clearly outweigh the value of free expression in this context." Guglielmi v. Spelling-Goldberg Productions (1979) 25 Cal.3d 860, 871-872 (Bird, C.J., concurring) n2; Eastwood, supra, 149 Cal.App.3d at 421-424. [n2 In the companion case to Guglielmi, Lugosi v. Universal Pictures (1979) 25 Cal.3d 813, the California Supreme Court generally upheld the right of publicity vis-a-vis commercial exploitation. However, Lugosi involved the sale of purely commercial products such as pencil sharpeners and candy dispensers and was not concerned with protected expression such as television programs.]

"Accordingly, to provide adequate protection to `speech that matters,'. . . even false statements of fact concerning public figures and officials are not actionable unless they are published with knowledge of their falsity or reckless disregard for the truth. [Citations.]

"No such constitutional dichotomy exists in this area between truthful and fictional accounts. They have equal constitutional guarantees of free expression." Guglielmi, supra, 25 Cal.3d at 871 (Bird, C.J., concurring).

Thus, in balancing the rights of a free press with the right to privacy, the Eastwood court concluded that:

"All fiction is false in the literal sense that it is imagined rather than actual. However, works of fiction are constitutionally protected in the same manner as topical news stories. [Citations.]" 149 Cal.App.3d at 423.

Usually, the torts of public disclosure and false light are found to be in conflict with the First Amendment because of the impact upon dissemination of information to the public. Eastwood, supra, 149 Cal.App.3d at 423. But if it is alleged that the entire publication is a "calculated falsehood" designed as a subterfuge or commercial appropriation of plaintiff's name and likeness, the court must consider First Amendment limitations in right of publicity cases. Id. Consequently, liability may be imposed upon media defendant only if the publication is a "calculated falsehood" which constitutes commercial exploitation and the complaint alleges the requisite "actual malice" or "scienter" mandated by the United States Supreme Court. Id. at 424-426.

Significantly, Eastwood involved a post-publication action for damages, rather than a prepublication prior restraint such as the remedy sought by the plaintiff in the case at bar. In essence, the court applied the laws of defamation in reaching its conclusion. Eastwood, supra, 149 Cal.App.3d at 424-426. And, while action[s] for damages [and] for invasion of privacy were permitted, the Eastwood court did not permit or discuss a prior restraint.

As discussed in the brief by the Amicus the theory of the right of publicity cannot and should not "be used as a vehicle to stifle undesired discussion and legitimate commentary on the lives of public persons." J. Thomas McCarthy, The Rights of Publicity and Privacy section 11.6(C).

2. Lanham Act

Nor does the Lanham Act provide support for plaintiff's request for injunctive relief. Section 43 (a) of the Lanham Act, 15 U.S.C. section 1125(a) provides in pertinent part that:

"Any person who, or in connection with any goods or services . . . uses in commerce any word, term, name, symbol or device, or any combination thereof . . . which (A) is likely to cause confusion, or association of such person with another person, or the origin, sponsorship, or approval of his or her goods or services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act."

The Ninth Circuit has permitted a damages action for the right of publicity against a purely commercial activity. White v. Samsung Electronics America, Inc. (9th Cir. 1992) 971 F.2d 1395, rehearing den. 989 F.2d 1512 (1993). In White, the court authorized a suit against an advertiser that appropriated the name and likeness of a public figure. However, a prior restraint injunction did not issue.

In Carson v. Here's Johnny Portable Toilets, Inc., (6th Cir. 1983) 698 F.2d 631, a public figure was permitted to state a cause of action for infringement of the right of publicity. While holding that the "right of publicity does not require that appropriations of identity be accomplished through particular means to be actionable", the court never considered a prior restraint. Id. at 1398. This case concerned a purely commercial defendant whose advertising was not protected speech.

Courts have issued injunctions in favor of a public figure plaintiff when the expression involved included specific copying of the public figure. Chaplin v. Amador (1928) 93 Cal.App. 358; Estate of Presley v. Russen (D.N.J. 1981) 513 F.Supp. 1339. These cases are clearly distinguishable from the one at bar.

In Presley, the court noted that the show was "merely an imitation of a performance of Elvis Presley" and that "in comparison to a biographical film or play of Elvis Presley or a production tracing the role of Elvis Presley in the development of rock 'n roll, the information about Presley which [the show at issue] provides is of limited value." 513 F.Supp. at 1359-1360. However, the court only enjoined certain portions of a show performed by an Elvis-impersonator which clearly were reproductions and violative of trade name and trade marks of the public figure.

Similarly, the Chaplin film expressly imitated the appearance, costume and mannerisms of Chaplin's "Little Tramp" character. n3 [n3 It should be noted that Chaplin was decided prior to Near v. Minnesota 283 U.S. 495 which was the defining Supreme Court decision prohibiting most prior restraints.]

In discussing "appropriation," Judge Kozinski, in his dissent from an order for rehearing in banc, aptly describes the dilemma court faces when attempting a prior restraint in this area:

". . . Intellectual property rights aren't like some constitutional rights, absolute guarantees protected against all kinds of interference, subtle as well as blatant. They have no penumbras, emit no emanations: The very point of intellectual property laws is that they protect only against certain specific kinds of appropriation." White v.

Samsung Electronics America, Inc.. (9th Cir. 1993) 989 F.2d 1512, 1514.

Surely a dramatic presentation of the life of the plaintiff in a biography will not be construed as being actually played by plaintiff in the context of the above cases.

C. Trademark infringement and unfair competition claims.

In addition, plaintiff has not alleged facts which demonstrate a violation of Business & Professions Code section 14330. If merely registering one's name as a trademark would insulate all media comment, then economic interests would automatically trump constitutional guarantees, a prospect inconsistent with settled law. U.S. Constitution, First Amend. and Cal. Constitution, Art. I section 2(a).

Moreover, plaintiff may not use trademark laws to enjoin publication of an unauthorized biography. New Kids on the Block v. New America Publishing, Inc. (9th Cir. 1992) 971 F.2d 302, 309. The Business & Professions Code clearly does not override the principles of the First Amendment. As explained in New Kids, it would be impossible to advertise the program without use of the words "Elizabeth Taylor" in the title. Volksvagenwerk Aktiengesellschaft v. Church 411 F.2d 350 (9th Cir. 1969). Thus, the use of plaintiff's name in the title will not be enjoined. It is not competitive with her products and defendants have no other means of communicating the nature of their product.

And, plaintiff has not presented any facts which demonstrate a likelihood of confusion. 15 U.S.C. section 1114(1)(a); Charles Schwab & Co. v. Hibernia Bank (N.D.Cal. 1987) 665 F.Supp. 800; Ball v. American Trial Lawyer's Assn. (1971) 14 Cal.App.3d 289. It does not appear likely that any viewer would assume that plaintiff endorsed or sponsored the mini-series just because the plaintiff's name appears in the title. WCVB-TV v. Boston Athletic Assn. (1st Cir. 1991) 926 F.2d 42, 46.

Plaintiff has also failed to present facts which suggest her name has acquired a secondary meaning that will be interfered with by the projected mini-series. In cases where the likelihood is not clear and the complaint fails to show actual instances of confusion, equity will refrain from granting relief. American Brewery Co. v. Bienville Brewery 153 F. 615.

Any harm suffered by plaintiff is actionable and she may recover in damages. She is not entitled to a prior injunctive restraint.

IV. "Special" motion to strike pursuant to CCP section 425.16.

In addition, defendants base their motion to strike upon CCP section 425.16, which is designed to prevent "SLAPP" suits.

A "SLAPP" suit has been described as a "meritless suit filed primarily to chill the defendant's exercise of First Amendment rights." Wilcox v. Superior Court (1994) 27 Cal.App.4th 809, 815 n.2 (citing Hull v. Rossi (1993) 13 Cal.App.4th 1763, 1769).

CCP section 425.16(b) provides for a "special" motion to strike

"[a] cause of action against a person arising from any act of that person in furtherance of the person's right of petition or free speech under the United States or California Constitution in connection with a public issue . . . ."

However, a motion to strike pursuant to CCP section 425.16 has not been properly presented to the court. In their motion to strike, defendants do not seek to strike an entire cause of action but seek only to eliminate those portions of the First Amended Complaint which pertain to injunctive relief.

Additionally, respondents have not presented any facts which would suggest this lawsuit was filed primarily to chill the valid exercise of constitutional rights but rather the facts indicate that the lawsuit was brought in good faith for the purpose of deterring a potentially unflattering rendition of plaintiff's life story.

To apply CCP section 425.16 to the facts of this case would be to chill the rights of litigants who are on the "cutting edge" with new and novel legal theories. The fact that this court has declined to accept the position of the plaintiff does not conflict with the fact that it is the determination of this court that the matter herein was brought in good faith and represented sound legal thought and reasoning and reflects an articulate and

extremely professional presentation of the position of the plaintiff by her attorneys.
[ELR 16:6:3]

California appeals court reverses $8.9 million judgment against Kim Basinger in "Boxing Helena" breach of contract case, because faulty jury instruction failed to distinguish between the actress and her loan out corporation

The case looked like one that would become an entertainment industry landmark -- one that would clarify whether oral agreements and unsigned deal memos are binding contracts in Hollywood. The first round of the case suggested that they are binding, because a trial court judge entered an $8.9 million judgment against Kim Basinger confirming a jury verdict that the actress had breached her agreement with Main Line Pictures when she backed out of her promise to appear in its movie "Boxing Helena." (See, "Los Angeles Jury awards $8.9 million to production company in breach of contract action against Kim Basinger, ELR 14:12:19 (May 1993); and Douglas Kari, "Basinger in a Box: Verbal Contracts in the Film Industry," ELR 15:2:3 (July 1993).)

The size of the judgment forced Ms. Basinger into bankruptcy. But before the bankruptcy proceeding was finished, the judgment was reversed by the California Court of Appeal. However, the basis for the appellate ruling had nothing to do with the central issue in the case. That is, it had nothing at all to do with whether she had entered into a binding contract.

Instead, the appellate court ruled that the trial judge had committed reversible error by instructing the jury to decide whether Ms. Basinger "and/or" her loan-out corporation had entered into and then breached a contract with Main Line. The instruction had failed to distinguish between the actress and her loan-out, even though Main Line had not proved (or even attempted to) that she was the alter ego of her corporation.

Though the case has been of tremendous interest to the entire entertainment industry, the appeals court marked its decision "Not to be Published," and thus it has not been published and will not be in the official (or unofficial) California case reports. Moreover, according to the rules of the California court system, such unpublished opinions may not be cited in other cases. Nevertheless, because of the interest the case has attracted, and because the decision is a significant reminder that there is an important distinction between loan-out corporations and the performers who own them, the entire text of the decision is published below.

Main Line Pictures, Inc., Plaintiff and Respondent, v. Kim Basinger et al., Defendants and Appellants.

In the Court of Appeal of the State of California
Second Appellate District, Division Five
B077509 (Super.Ct.No. BC031180)
NOT TO BE PUBLISHED

Appeal from the judgment of the Superior Court of Los Angeles County, Judith C. Chirlin, Judge. Reversed.

Greines, Martin, Stein & Richland, Irving H. Greines and Roxanne Huddleston; Katten Muchin Zavis & Weitzman, Howard L. Weitzman, Mark A. Wooster and E. Randol Schoenberg for Defendants and Appellants.

Christensen, White, Miller, Fink & Jacobs, Patricia L. Glaser, Eric N. Landau and Nabil L. Abu-Assal for Plaintiff and Respondent.

GRIGNON, J.

Defendants and appellants, actress Kim Basinger and her "loan-out" corporation n1 Mighty Wind, Inc., appeal from an $8 million judgment against them and in favor of plaintiff and respondent Main Line Pictures, Inc. in Main Line's breach of contract action relating to production of the movie "Boxing Helena." Among other contentions relating to the sufficiency of the evidence and the excessiveness of the damages, defendants assert the special verdicts were prejudicially ambiguous in that they failed to differentiate between the liability of Basinger and Mighty Wind by use of the term "and/or." Because we agree the "and/or" special verdicts require reversal, we need not reach defendants' remaining contentions. We reverse.

FACTS n2

In December 1990, Main Line sent a copy of the screenplay of "Boxing Helena" to Basinger. Basinger was a well known actress, having starred in many movies, including "Batman" and "9 1/2 Weeks." On December 28, 1990, Main Line's president, Carl Mazzocone wrote to Basinger through her agent Intertalent offering Basinger $500,000 plus additional deferred compensation to star in the movie.

Basinger was excited about the script and interested in playing the female lead. Barbara Dreyfus, Basinger's assistant and Mighty Wind's director of development, arranged for Basinger to meet the film's screenwriter and director, Jennifer Lynch.

Mighty Wind was Basinger's "loan-out" corporation, a company through which Basinger "loaned" her acting services. Payment for Basinger's services was made to Mighty Wind, which in turn employed and paid Basinger. On January 11, 1991, Lynch, Basinger and Dreyfus met at Mighty Wind's office. Basinger expressed an interest in the movie, which she believed would be a tremendous showcase for an actress. She also stated she felt a kinship to the role because it concerned a woman who was obsessed, a situation which was familiar to Basinger.

The screenplay contained a few nude scenes. On January 18, 1991, Basinger and Lynch met to address Basinger's concerns regarding the treatment of the nude scenes. Lynch explained in detail how she expected to film the scenes with Basinger, stating there would be no gratuitous sex scenes or frontal nudity below the waist. While the film would be sensual, it would not be explicit. The meeting lasted more than one hour and all issues involving nudity were resolved. Basinger agreed to act in the film as it had been presented to her in the script.

On January 24, 1991, Basinger met with Intertalent and agreed to act in "Boxing Helena."

Main Line's attorney, Robert Wyman, discussed the contract's material terms with defendants' attorneys Robin Russell and Julie Philips. Mazzocone also had contract discussions with Attorney Russell. Other contract discussions took place between Attorney Wyman, Mazzocone or Lynch and Intertalent or Dreyfus.

Compensation and credit were discussed at the outset. The parties agreed Basinger would receive her usual fee of $3 million for the picture, consisting of guaranteed compensation of $600,000 plus additional deferred and contingent compensation. Basinger agreed to accept second billing behind Ed Harris, the male lead.

On February 27, 1991, Mazzocone, Attorney Wyman and Attorney Philips discussed each material term of the contract. Attorney Wyman reviewed a checklist of all terms in issue, Attorney Philips agreeing to each term as described. Following this conversation, Attorney Wyman sent Attorney Philips a "deal memo" dated February 27, 1991, setting forth the contractual terms for Basinger's performance in "Boxing Helena." n3

On February 28, 1991, Attorney Philips sent an annotated copy of the "deal memo" back to Attorney Wyman. Attorney Philips's annotations requested certain changes to be included in a formal written document. For example, she wanted to change the number of days Basinger would work in post-production. On Attorney Philips's own copy of the document, she noted "[t]here is substantial nudity - KB ok with it . . . no frontal nudity, nothing graphic - more subliminal." Attorney Philips also noted that the "Loan[-]out company is Mighty

Wind Productions." Mazzocone understood Mighty Wind was "Kim's production company and that's who the contract should be made with and that's where the payment [was to] be paid -- to Mighty Wind." Such arrangements were standard and did not materially change the contract.

As soon as the agreement for Basinger's acting services was reached at the end of February, Main Line received authorization to use Basinger's photo to promote the movie. On February 28, 1991, Republic Pictures, a foreign distribution company, learned that Basinger had agreed to perform in the film; it began preselling the film in foreign markets with Basinger's name attached. Eventually, foreign presales for the movie with Basinger's name attached totaled $6.8 million. Main Line reasonably expected to receive approximately $3 million in domestic presales. The money obtained from the foreign presales would secure financing for the film. n4

In April 1991, Main Line began preproduction activities including casting, wardrobe, special effects and model construction.

Because timing is critical, film industry contracts are frequently oral agreements based on unsigned-deal memos." Often, artists authorize their agents or lawyers to bind them. Sometimes, however, the parties also desire to memorialize the agreement in an executed written contract, commonly referred to as a "long form agreement." This written contract is usually negotiated by attorneys and contains many standard terms. Although the parties may intend their oral agreement to be binding, many subsidiary or ancillary terms may subsequently be agreed upon and incorporated into the written contract. The written agreement also enables parties to formalize their understanding in legal language. The absence of an executed written agreement does not mean there is non-legally binding agreement. Basinger, for example, had entered into executed written agreements for only two of her prior films.

After the oral agreement had been reached, Attorney Wyman incorporated its material terms into written documents, an "Acting Service Agreement" and a "Producer's Standard Terms and Conditions for an Actor/Actress -- Loan-out." An "Inducement" was also drafted. These documents were sent to Attorney Philips on March 7, 1991. Thereafter, Attorney Wyman and Attorney Philips exchanged numerous drafts of the Acting Service Agreement and the Producer's Standard Terms and Conditions, copies of which were sent to Basinger and others. During the exchange process, many ancillary terms were revised and eventually agreed upon.

In April 1991, Basinger changed agents; she replaced Intertalent with International Creative Management (ICM). After ICM read the screenplay for "Boxing Helena," ICM concluded Basinger should not do the film.

Sometime in May of 1991, Lynch heard a rumor that Basinger was not intending to perform in the movie. Lynch telephoned Dreyfus and relayed the rumor. Dreyfus repeated the rumor to Basinger, who at the time was in the room with Dreyfus. Basinger denied the rumor and confirmed her commitment to star in the film.

On May 6, 1991, Basinger called Lynch and Mazzocone and expressed reservations about the script. Basinger stated she wanted the character to be more sympathetic. Two days la-ter, ICM told Lynch and Mazzocone it had suggested to Basinger she not act in the film. Lynch attempted to accommodate Basinger's reservations by modifying the script. Lynch met with Basinger at Basinger's office to discuss the proposed changes.

On May 29, 1991, Attorney Wyman sent to Attorney Philips final execution drafts dated "February 29, 199[1]," of the Acting Service Agreement and the

Producer's standard Terms and Conditions. The cover letter stated Attorney Wyman was delivering an execution copy of the "Agreement between Main Line Pictures, Inc. and Mighty Wind Productions, Inc. f/s/o (for the services of] Kim Basinger."

The Acting Service Agreement described Main Line as "Producer," Mighty Wind as "lender" and Basinger as "artist." The Agreement called for "Lender [to] cause Artist to report for the rendition of exclusive services in connection with . . . [`Boxing Helena.']" Compensation was to be paid to lender, subject to lender's and artist's full performance. The Acting Service Agreement specified artist's credit and perquisites, such as transportation and dressing facilities. It also provided for merchandising and the use of artist's likeness. The signature line called for execution by "Main Line Pictures, Inc. By Carl Mazzocone" and "Mighty Wind Productions, Inc. By Kim Basinger." There was no place for Basinger to sign as an individual. The Acting Service Agreement was never executed.

The Producer's Standard Terms and Conditions provided that Mighty Wind, "employer," agreed to "loan-out" the services of Basinger to Main Line. It provided, inter alia, that Main Line was entitled to seek equitable relief if artist breached and employer was to indemnify producer if artist made any claim for compensation. Employer warranted that it was a duly organized and bona fide corporation. No signature lines were included in this document.

There is nothing in the record to indicate whether an Inducement was sent to Attorney Philips on May 29, 1991, along with the other two documents. Moreover, there was no testimony concerning this document. The Inducement is in the nature of a personal guarantee. The unexecuted Inducement calls for Basinger's signature. It provides the following: Basinger is familiar with the agreement between Main Line and Mighty Wind and consents to its execution. She will look solely to Mighty Wind for payment. If Mighty Wind breaches the agreement, Main Line may join her in the action without first being required to exhaust remedies against Mighty Wind. If Mighty Wind ceases to exist, Basinger is deemed to be employed directly by Main Line.

On June 10, 1991, Main Line learned that Basinger was not going to act in "Boxing Helena."

PROCEDURAL BACKGROUND

On June 21, 1991, Main Line filed a complaint naming as defendants Basinger and Mighty Wind. The complaint alleged that defendants breached an oral and a written contract to provide Basinger's acting services. The complaint contained no alter ego allegations. n5

During trial, the parties submitted proposed jury instructions. Defendants argued that since Mighty Wind was a corporation, it was entitled to instructions separate from Basinger. They asserted that Main Line had the burden to prove defendants were not distinct. Basinger argued that she was not a party to any contract. In opposition, Main Line argued no distinction existed between Basinger and Mighty Wind for purposes of this case. Main Line asserted that since the bargained-for services were Basinger's, if Basinger breached, then both Basinger and Mighty Wind breached. With no basis in the record, Main Line contended that Mighty Wind was simply a "tax configuration." Main Line did not assert an alter ego theory. The trial court refused to instruct the jury as requested by defendants. Basinger moved for a directed verdict, arguing that if there was any contract, it was with Mighty Wind and not her. The motion was denied.

The trial court formulated its own special verdicts based upon the earlier discussions. The special verdicts consistently referred to "Basinger and/or Mighty Wind." The trial court requested that the parties examine these special verdicts. It reminded defendants that previously the trial court had requested evidence of the separate existence of Mighty Wind and noted that the "only" evidence which made the two defendants different was that Mighty Wind was a corporation. In an offer of proof, defendants indicated they could prove Mighty Wind was a corporation. The trial court found, as a matter of law, that the jury could not find a "separation between the two." When defendants mentioned there might be due process problems in disregarding the corporation, Main Line indicated it was willing to take that risk. The trial court concluded that everything done by Mighty Wind was done by Basinger. The special verdicts prepared by the trial court did not separate Basinger from Mighty

Wind. Thus, for example, Question No. 1 of the special verdicts asked, "Did Kim Basinger and/or Mighty Wind enter into an oral contract with Main Line for Ms. Basinger to perform acting services in the movie `Boxing Helena?'" (Emphasis in original.) Question No. 2 was almost identical, except that it asked if there was a written contract. Question No. 4 inquired, "Did Ms. Basinger and/or Mighty Wind breach a contract with Main Line?" and Question No. 5 asked whether "the breach of contract by Ms. Basinger and/or Mighty Wind [was] the legal cause of damage or harm to Main Line?" The damage questions also contained the phrase "Basinger and/or Mighty Wind."

The jury concluded that "Basinger and/or Mighty Wind" had entered into both an oral and a written contract, had breached the contract and had caused damages to Main Line in the amount of $7,421,694. The jury further determined that "Basinger and/or Mighty

Wind" had denied in bad faith the existence of the contract, and awarded an additional $1.5 million in damages. The jury did not award any punitive damages.

In post-trial proceedings, defendants once again argued Mighty Wind and Basinger had separate legal existence. Defendants' motions for new trial and for judgment notwithstanding the verdict were denied, except insofar as the trial court struck the $1.5 million award for bad faith denial of the contract as duplicative. Upon motion, the trial court awarded Main Line $713,522.05 in attorney's fees and costs. A $8,135,216.05 judgment was entered against Basinger and/or Mighty Wind.

Defendants appeal from the judgment.

DISCUSSION

On appeal, "`[a] verdict should be interpreted so as to uphold it and to give it the effect intended by the jury, as well as one consistent with the law and the evidence.'" (All-West Design, Inc. v. Boozer (1986) 183 Cal.App.3d 1212, 1223.) However, reversal is required (Cal. Const., art VI, section 13) when a verdict is hopelessly ambiguous (Mixon v. Riverview Hospital (1967) 254 Cal.App.2d 364, 375) or contains an incorrect statement of the law which probably confused and misled the jury (Byrum v. Brand (1990) 219 Cal.App.3d 926, 938). We do not interpret the ambiguous verdict of a jury when it cannot be determined from the verdict which party the jury found to be liable. If the jury's verdict leaves open the possibility of numerous conclusions as to liability, we will not draw our own conclusions from the facts if contrary factual conclusions can be reached. The result of an ambiguous jury verdict as to liability is a failure of the jury to make a finding on a critical issue. (Cf. Irelan-Yuba Etc. Min. Co. v. Pacific G. & E. (1941) 18 Cal.2d 557, 570-571.) Such a failure requires reversal. (People ex rel. Sorenson v. Randolph (1979) 99 Cal.App.3d 183, 187; cf. Rabago v. Unemployment Ins, Appeals Bd. (1978) 84 Cal.App.3d 200, 212.)

The term "and/or" is inherently ambiguous. (Cal. Shipbuilding Corp. v. Ind, Acc, Com. (1948) 85 Cal.App.2d 435, 436; In re Bell (1942) 19 Cal.2d 488, 499.) It "gives rise to multiple meanings; specifically, it can mean either or it can mean both." (Disskins v. American National Ins, Co. (1979) 92 Cal.App.3d 222, 232, disapproved on other grounds in Gray v. Don Miller & Associates, Inc. (1984) 35 Cal.3d 498, 507, fn. 5.) Only if the options are synonymous is there no ambiguity. (Ibid.)

Corporations are separate legal entities, distinct from their shareholders and officers. (Cooperman v. Unemplovment Ins. Appeal Bd. (1975) 49 Cal.App.3d 1, 7; Maxwell Cafe v. Dept. Alcoholic Control (1956) 142 Cal.App.2d 73, 78.) They are formed for numerous business reasons, including as a shield from liability and for tax purposes. The statutory scheme which provides for the formation of corporations affords such entities privileges of separability. (Merco Constr. Engineers, Inc. v. Municipal Court (1978) 21 Cal.3d 724, 729-730; Corp. Code, section 18.) The liability of a corporation does not automatically attach to its shareholders, the owners of the corporation. (Cf. Wyatt v. Union Mortgace Co. (1979) 24 Cal.3d 773, 785.) This is so even if the stock of the corporation is wholly owned by a single person. (Cf. Mid-Century Ins. Co. v. Gardner (1992) 9 Cal.App.4th 1205.) Rather, a corporation sues in its own name, is sued in its own name, transacts business separate from its shareholders and enters into contracts on its own accord. By their very nature, corporations have a separate identity from their owners and corporate obligations are not obligations of the shareholders. (Merco Constr. Engineers, Inc. v. Municipal Court, supra, 21

Cal.3d at pp. 729-730.) Where it appears on the face of a contract that it is entered into on behalf of the corporation "by" its agent, the corporation is liable and the agent is not. (Barrett v. Hammer Builders, Inc, (1961) 195 Cal.App.2d 305, 317; Carlesimo v. Schwebel (1948) 87 Cal.App.2d 482, 487.)

Individual professionals incorporate for a variety of reasons. (E.g., Cooperman v. Unemployment Ins. Appeals Bd., supra, 49 Cal.App.3d 1 [cameraman-director].) Such personal service corporations are entitled to the same separability of identity as are other corporations. (Cf. Laughton v. Comr. (1939) 40 B.T.A. 101 [actor].) Performers' "loan-out" companies are not sham entities. (Ibid.) As a general rule, the sole shareholder of a personal service corporation is not liable for the obligations of the corporation. (Ibid.) The applicability of this general rule to sole shareholder personal service corporations is evidenced by the fact that for public policy reasons, the Legislature has determined that certain licensed or certified professionals who do business through a professional service corporation, n6 such as physicians and attorneys, may be personally responsible for professional malpractice. (Corp. Code, section 13404.5, subd. (c).) The Legislature has recognized the separate nature of these corporations, but has determined that for some types of corporations and some types of liability, the corporate shield should not be available. No such special rules apply to the contractual obligations of an actress's "loan-out" corporation.

Typically, claimants reach shareholders for corporate debts by asserting the shareholder is the alter ego of the corporation, the corporate form should be disregarded and the corporate veil should be pierced. (See discussions in Mesler v. Bragg Management Co. (1985) 39 Cal.3d 290, 300; Wyatt v. Union Mortgage Co., supra, 24 Cal.3d at p. 785; Mid-Century Ins, Co. v. Gardner, supra, 9 Cal.App.4th at p. 1215; Cooperman v. Unemployment Ins. Appeals Bd., supra, 49 Cal.App.3d 1 [cameraman-director professional corporations]; Associated Vendors. Inc. v. Oakland Meat Co. (1962) 210 Cal.App.2d 825.) In this case, however, Main Line expressly rejected both at trial and on appeal any reliance on an alter ego theory. Accordingly, Main Line presented no evidence on many key alter ego factors, such as the number or identity of the shareholders, directors or officers of the corporation, the extent of its capitalization or its compliance with corporate form and formalities.

We conclude the "and/or" special verdicts in this case in connection with the contractual obligations of Basinger and Mighty Wind are prejudicially ambiguous and require reversal. "And/or" as used in the special verdicts may mean Basinger only, Mighty Wind only or both Basinger and Mighty Wind. Mighty Wind is a separate corporate entity, distinct from Basinger. The record does not disclose whether Basinger is the sole shareholder of Mighty Wind or an officer or director of the corporation. In the absence of alter ego findings, Mighty Wind and Basinger are not synonymous. Unless Mighty Wind is the alter ego of Basinger, she is not liable for the corporate obligations.

Although there is substantial evidence to support findings that both Basinger and Mighty Wind entered into and breached an oral contract with Main Line, the facts do not compel only this conclusion. n7 The jury could have concluded that the contract was entered into only with Mighty Wind. Discussions took place at Mighty Wind's offices and the parties discussed that the agreement would be between Main Line and Mighty Wind. The written, but unexecuted agreements, contemplate an agreement with the corporation only. The "deal memos" evidenced an intent that the contract be entered into with

Mighty Wind. The execution copy of the Acting Service Agreement called for the corporation to enter into the agreement; the signature line specified "Mighty Wind Productions, Inc. By Kim Basinger," an agent designation. No individual signature line was provided for Basinger. The record also includes the separate Inducement, which was apparently to be signed by Basinger individually. However, the Inducement is a separate contract in the nature of a personal guarantee and the record contains no testimony concerning the Inducement. There is no evidence concerning the custom in the industry with regard to Inducements. Neither the Acting Service Agreement nor the Producer's Standard Terms and Conditions makes reference to the Inducement.

The jury could also have concluded that the contract was entered into only with Basinger. Basinger personally discussed the project with Lynch; she gave her agents the authority to bind her in a contract; the parties consistently referred to Basinger's performance; and the written documents always included Basinger's personal obligations.

Further, the jury could have concluded that both Basinger and Mighty Wind entered into a contract. Basinger's participation may have been on her own behalf, as well as on behalf of her corporation. The corporation may have been used by Basinger only as a tax vehicle; for purposes of this contract, she and the corporation both expected to be bound. The agreement was originally between Basinger and Main Line, and Mighty Wind may have been added as a party to the contract as an accommodation to Basinger.

The special verdicts contain no finding as to the party or parties who entered into the oral contract. The form of the special verdicts prevented the jury from performing its obligation to determine the separate existence of Mighty Wind and Basinger. On the record before us, the jury may have concluded Basinger personally entered into the contract. It also may have concluded Mighty Wind entered into the contract. In addition, the jury may have concluded that both Basinger and Mighty Wind entered into the contract. Had the jury concluded that only Mighty Wind entered into the contract, only Mighty Wind would be liable for breach of the contract. Even though the acting services were to be performed by Basinger, if the contract was only with Mighty Wind, then, when Basinger failed to perform, Main Line's remedy would be against Mighty Wind.

Although Basinger's services were key to the contract, the issue is the party or parties responsible if she fails to perform. If the contract is only with Mighty Wind, then only Mighty Wind can be liable for a breach of the contract. We cannot ascertain from the record whether the jury found that Basinger entered into the contract, Mighty Wind entered into the contract or they both entered into the contract. Thus, the jury verdicts fail to render a finding on a key factual issue, and the judgment must be reversed.

Defendants have requested that we not only reverse the judgment against them, but also order judgment entered in their behalf. They contend Main Line precipitated the ambiguity in the special verdicts, invited the error of the trial court in drafting the special verdicts and thereby waived a retrial. As a general rule, a reversal on the basis of improper special verdicts is unqualified. (Byrum v. Brand, supra, 219 Cal.App.3d at p. 939.)

Such an unqualified reversal "puts the case `at large,' as if no trial had ever taken place." (Ibid.) Upon filing of the remittitur, the case may be retried. Ordinarily, an unqualified reversal is warranted even where the plaintiff-respondent has to some extent invited or waived the error. (Cf. Atchison Etc. Ry. v. Superior Court (1939) 12 Cal.2d 549, 555; Morris v. McCauley's Duality

Transmission Service (1976) 60 Cal.App.3d 964, 972; Ventura County Employees' Retirement Association v. Pope (1978) 87 Cal.App.3d 938, 943-944.) In certain exceptional circumstances, however, appellate courts have applied to a respondent the doctrines of waiver and invited error, which are typically applied to appellants, resulting in a reversal without a new trial. (Myers Building Industries, Ltd. v. Interface Technology, Inc. (1993) 13 Cal.App.4th 949, 960, fn. 8; Mayer v. Beondo (1948) 83 Cal.App.2d 665, 670-671; compare with Beck v. Arthur Murray, Inc. (1966) 245 Cal.App.2d 976, 982-983.)

Such a result is unwarranted in this case. In Myers, we struck a punitive damage award in favor of plaintiff-respondent because no tort finding was made by the jury. The jury had rendered a decision on a contract cause of action and not a tort cause of action. Unlike Layers, however, in this case, we do not have the total absence of a finding on a severable issue. Rather, the special verdicts are ambiguous on issues which are not be severable. n8

The judgment is reversed. Main Line is to bear defendants' costs on appeal.

[NOTES]

1. A "loan-out" corporation is a personal service corporation which lends the services of an artist to a production company.

2. Following the usual rules on appeal, we recite the facts in the light most favorable to the findings. (Molko v. Holy Spirit Assn. (1988) 46 Cal.3d 1092, 1107; GHK Associates v. Mayer Group, Inc. (1990) 224 Cal.App.3d 856, 872.)

3. The memorandum provided for "guaranteed compensation" of $600,000, "Gross deferment [compensation]

payable out of first receipts of producer of $400,000[, [para.] a]djusted gross receipts . . . of $1,000,000 payable out of 35% of producer's receipts [, [para.] a]djusted gross receipts deferment of $1,000,000 payable out of 25% of producer's receipts . . . and . . . [para.] [c]ontingent compensation equal to 15% of producer's receipts thereafter."

4. A presale is a minimum guarantee by a distributor in a specific market to procure that distributor's rights to show the movie in a given territory. After Basinger declined to perform in "Boxing Helena," Main Line produced the movie with a lesser known actress. Without Basinger, total presales declined to $2.5 million.

5. The complaint also alleged that ICM induced the breach of contract. The trial court granted ICM's motion for nonsuit based upon the manager's privilege. At the end of the trial, the trial court awarded ICM $24,203.69

in costs. Main Line has not appealed from this judgment.

6. Professional service corporations are corporations engaged in rendering professional services in a single profession which may be rendered only pursuant to a license, certificate or registration. (Corp. Code, section 13401.)

7. Thus, the trial court properly denied defendants' motion for judgment notwithstanding the verdict.

8. Judgment in favor of ICM in the amount of $24,203.69 is not affected by our decision.

NOT TO BE PUBLISHED.

We concur:

TURNER, P.J.

GODOY PEREZ, J.

[ELR 16:6:8]

Paramount prevails in copyright infringement action involving use of Laurel and Hardy sound recordings in "Hard Copy" broadcast

Michael Agee owns the copyrights in the sound recordings, "Laurel and Hardy's Music Box" and "Laurel and Hardy's Music Box-Volume Two." The music was written by Ronnie Hazelhurst and was first published in 1986 and 1990. Agee does not own the copyrights or the publishing rights to the music compositions.

On February 16, 1993, the television program "Hard Copy" broadcast a segment entitled "Caught on Tape," in which two young men were shown unsuccessfully attempting to burglarize a liquor store in Houston, Texas. Portions of the songs "Ku-Ku" and "Cops" from "Music Box-Two" were used as background music.

When Agee sued Paramount Pictures, the producer of "Hard Copy," as well as other Paramount entities and various television stations, Federal District Court Judge Constance Baker Motley distinguished between the copyright protection available to written musical works and to sound recordings. Section 114(b) of the Copyright Act provides that sound recording copyright holders possess the right "to duplicate the sound recording in the form of phonorecords, or of copies of the motion pictures and other audiovisual works, that directly or indirectly recapture the actual sounds fixed in the recording;" the right "to prepare a derivative work in which the actual sounds fixed in the sound recording are rearranged, remixed, or otherwise altered in sequence or quality; and the right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending." The owners of sound recording copyrights do not possess any rights of performance under section 106(4) of the Act.

Judge Motley stated that the exclusive rights of reproduction held by sound recording copyright owners is more limited than the broad right of reproduction granted music composers and music publishers under section 106(1). Under section 114(b)(1), the exclusive right of reproduction for sound recording copyright owners is limited to the right to duplicate the sound recording in the form of phonorecords, or of "copies" of audiovisual works, "that directly or indirectly recapture the actual sounds fixed in the recording."

In reviewing the legislative history of section 114 and its predecessor, the Sound Recording Act of 1971, Judge Motley cited Congress's apparent intention to prevent the unauthorized duplication of commercial sound recordings, i.e., record piracy.

Given the legislative history and the language of the Copyright Act, the court found that granting Agee a synchronization right would extend his rights "far beyond what Congress intended." The mere process of synchronizing a sound recording to a video image did not infringe Agee's rights to commercially reproduce his recording, according to Judge Motley, who reiterated that Agee's reproduction rights would be infringed only by the unauthorized sale or public distribution" (emphasis by the court) of videotapes, phonorecords, audio cassettes or compact discs containing his sound recordings to the general public. Paramount's taping of the Laurel and Hardy works did not prevent Agee from selling the works to the public. The company transmitted to television stations a "performance" of the recording within the "Hard Copy" program, and Agee acknowledged that sound recording copyright owners do not possess performance rights under the Copyright Act. In all, Paramount's use of the sound recordings did not infringe Agee's right of reproduction under the Act.

Judge Motley next found that Paramount's use of the Laurel and Hardy works did not create a derivative work under the Copyright Act. There was no evidence that the Paramount parties used the sound recording to create a "new and original work." The sound recordings were not a prominent focus of the "Caught on Tape" segment, and were barely audible during certain "voice-overs." The purported addition of sound effects "did not alter or enhance" the sound recordings, declared the court, and there was no evidence that Paramount re-mixed the sound in the recordings, or added lyrics or musical variations. Copying a sound recording for use in a broadcast television program does not create a derivative work which warrants protection under the Copyright Act, held the court.

Agee further argued that the Paramount parties infringed his copyrights by transmitting, to various television stations, promotional material containing the sound recordings. It has been held that when a network broadcaster or a television station broadcasts a copyrighted work, the transmission constitutes a performance under the Copyright Act. However, since sound recording copyright owners do not possess "performance rights," Paramount's satellite transmission did not infringe Agee's rights, stated Judge Motley.

The broadcast of "Hard Copy" by the television stations to the viewing public constituted a performance that also did not infringe Agee's sound recording copyrights because the satellite transmission to the stations was protected under the "ephemeral recording" exemption of 17 U.S.C. section 112. Under section 112, a "transmitting organization," such as a television station, that has the right to transmit any work may make a single copy or phonorecord of a particular program embodying the work in specified circumstances.

Judge Motley noted that local stations are allowed to make only one recording of the daily "Hard Copy" program and are not permitted to re-broadcast, re-run, distribute or disseminate the program at another time. After the broadcast, the television stations are required by their license agreement to destroy their copy of Paramount's satellite transmission. The court applied the ephemeral recording exemption in finding that the transmission of the program to the television stations and the subsequent transmissions to the viewing public did not infringe Agee's sound recording copyrights.

The court concluded by dismissing Agee's Lanham Act and unfair competition claims for failure to state a cause of action.

Agee v. Paramount Communications, Inc., 853 F.Supp. 778, 1994 U.S.Dist.LEXIS 7353 (S.D.N.Y. 1994) [ELR 16:6:14]

MGM/UA and CBS/Fox are not liable for copyright infringement for use of music in videocassettes

In December 1982, MGM/UA sold its music publishing business to CBS, Inc., the predecessor in interest to EMI Catalogue Partnership. CBS purchased copyrights in about 50,000 musical compositions for about $68 million.

The agreement provided, in part, that MGM/UA could continue to exploit motion pictures containing "film compositions," i.e., "all musical compositions or cues, which are included in the Catalogue created or acquired for use initially in filmed or videotaped entertainment broadcast, released or distributed...by December 1, 1982, the rights in which were acquired by Seller...for such entertainment prior to the Closing Date."

Section 11.2 of the agreement provided that MGM/UA, in connection with any films the company previously had distributed, would be entitled to distribute or exhibit such films "by any means or in any media (now or hereafter known) free of any charge or fee payable by MGM/UA to CBS with respect to the film compositions therein." However, MGM/UA, in Section 11.5 of the agreement, stated that it would pay CBS for film compositions incorporated in "videograms" which MGM/UA sold, leased, rented or otherwise exploited on or after the closing date of the agreement in any country, if the country, "by operation of law," required such payments or if there was an established general industry custom to require entities such as MGM/UA to make payments for the use of film compositions.

MGM/UA claimed that it retained the right to license third parties, such as CBS/Fox, to manufacture and distribute the MGM/UA films in video format. EMI argued that MGM/UA did not retain such rights and was infringing EMI's copyrights.

A Federal District Court in New York ruled that the agreement authorized MGM/UA's licensing arrangement with CBS/Fox and that MGM/UA was not obligated to make any payments under Section 11.5.

Judge Peter K. Leisure stated that licensing third parties to distribute the MGM/UA films in video format was an authorized exploitation under the agreement. The court cited, among other factors, trial testimony indicating that the agreement was intended to protect MGM/UA's ability to use third parties in distributing its films.

After careful consideration, Judge Leisure next found that Section 11.5(ii) would require payment by

MGM/UA only if it became customary "for film studios to make payments to others for the use in videos of music whose copyright they own." Since no evidence was presented of such a custom, no sums were due under the agreement. CBS/Fox claimed that it was entitled to indemnification for the costs of defending the instant action under its license agreement with MGM/UA. The court determined that CBS/Fox's failure to give prompt notice relieved MGM/UA of its obligation, under two licensing agreements governed by New York law, to indemnify CBS/Fox for the costs of defending the action, but that under a third agreement, governed by California law, MGM/UA was liable to CBS/Fox for the cost of defending against EMI's claim with respect to videos covered by the agreement.

The court rejected MGM/UA's cross-claim against CBS/Fox for clearance costs, stating that MGM/UA did not fulfill a contractual obligation to bring these costs to the attention of CBS/Fox when making the relevant films available for video distribution.

EMI's second copyright infringement claim against CBS/Fox involved thirteen films, produced by Fox, containing music to which EMI owned the copyright; the films were manufactured and distributed by CBS/Fox in home video pursuant to an agreement between Fox and CBS/Fox. Fox originally transferred the rights to the music contained in the films in 1936 under an agreement among Fox, Movietone Music and three other parties. CBS/Fox argued that under the 1936 agreement, Fox retained the right to license third party manufacturing and distribution of the Fox films in video.

Judge Leisure declared that Fox was entitled to license third party manufacturing and distribution of the Fox films. Video was a "future development" within the meaning of the agreement, and the manufacture and distribution of videos containing the music at issue was a "use...in connection with" this future development. The agreement contained no restriction as to licensees. Thus, Fox retained the right under the 1936 agreement to use the music at issue by licensing third party manufacturing and distribution of its films in video form, and CBS/Fox acted pursuant to a valid license.

In August 1994, Judge Leisure ruled that MGM/UA was required to indemnify CBS/Fox for twenty-three percent of the defense costs, including reasonable attorneys' fees, incurred by CBS/Fox in defending claims relating to the films included in the parties' video agreements.

EMI Catalogue Partnership v. CBS/Fox Company, 1994 U.S.Dist.LEXIS 5476; 1994 U.S.Dist.LEXIS 10441 (S.D.N.Y. 1994) [ELR 16:6:15]

Court rejects copyright and trademark infringement claims involving use of music from "McLintock!" in videocassettes

In 1963, Batjac Productions produced the film "McLintock!." United Artists obtained the distribution rights to the film and obtained specific rights in the musical compositions accompanying the film. In 1993, Batjac issued a quitclaim transferring all right, title, and interest in the home video version of "McLintock!" to Maljack. In the same year, EMI Catalogue Partnership, the successor in interest to United Artists, entered into a synchronization license agreement with Goodtimes Home Video, granting the company the non-exclusive right to use the musical compositions in connection with the distribution of the film.

Federal District Court Judge Ronald S.W.Lew noted that the distribution agreement, in part, granted United

Artists "all worldwide rights under copyright and otherwise" in the musical compositions for the period of copyright and any renewals, and also granted the company the right to license the use of the sound track "in the form of phonograph records, tapes, transcriptions or any other form or medium of any nature whatsoever throughout the world." United Artists became the owner of the copyrights in the musical works, stated the court, and the transfer of rights was not subject to reservation or reversion.

Judge Lew concluded that EMI, as successor in interest to United Artists, owned the copyrights in the musical compositions at issue, and that Goodtimes, as the licensee of EMI, was entitled to distribute videocassettes of "McLintock!." It was further found that Maljack lacked standing to assert the copyright infringement claims because it was not the owner or the exclusive licensee of the copyrights. The court therefore granted

Goodtimes' motion for summary adjudication of the copyright infringement claims, and granted the company's motion for summary adjudication of Maljack's trademark causes of action as well.

Maljack Productions, Inc. v. Goodtimes Home Video Corp., 1994 U.S.Dist.LEXIS 5838, 30 U.S.P.Q.2d (BNA) 1959 (C.D.Ca. 1994) [ELR 16:6:16]

Phil Collins may proceed with action in Germany seeking to bar unauthorized distribution of concert recording

Phil Collins sued Imtrat Handelsgesellschaft mbH, alleging the unauthorized marketing in German territory of a compact disc containing a recording, made without the singer's consent, of a 1983 concert given in the United States.

The German Copyright Act, in part, grants performing artists of German nationality the right to prohibit the unauthorized distribution of recorded performances, irrespective of the place of performance. German courts have ruled that foreign artists cannot rely on the provisions of the statute if the performance at issue was given outside Germany.

The Court of Justice of The European Communities, in response to questions referred by a regional court, has ruled that the principle of non-discrimination under Article 7(1) EEC applies to copyright and related rights. Neither the differences in national laws relating to the protection of copyright and related rights, nor the fact that not all the member states have acceded to the Rome Convention would justify infringing the prohibition on "any discrimination on grounds of nationality." Thus, member states may not make the grant of an exclusive right subject to the condition of being a national of that state, declared the court, and may not refuse, under certain circumstances, to grant authors and performing artists of other member states the right, which is granted by the same law to nationals, "to prohibit the marketing in national territory of a phonogram made without their consent, if the performance in question was given outside national territory."

Collins v. Imtrat Handelsgesellschaft mbH, [1994] FSR 166, LEXIS Eurcom Library, Cases File (1993) [ELR 16:6:17]

Providing "music on hold" to telephone users does not constitute copyright infringement, rules Australian court

A test case brought by the Australasian Performing Right Association sought to determine whether providing music to be heard by telephone users placed on "hold" constitutes copyright infringement. The association sought to restrain Telstra Corporation, doing business at Telecom, from performing or authorizing the performance of the subject works in public, broadcasting the works, or transmitting them to any subscriber to a telecommunications service provided by Telecom.

The Federal Court of Australia noted that many commercial telephone systems have the capacity to play music on hold and that a music source, such as a compact disc player or radio, may be connected to such equipment. Some of the equipment to which music sources can be attached is supplied by Telecom. Telecom also plays music on hold for callers who telephone its service center, and to certain subscribers of a service called Custom Net.

The court found that by transmitting music on hold to be played by third parties, Telecom did not cause the works to be transmitted to subscribers to a diffusion service within the meaning of the Copyright Act. The court also rejected the arguments that Telecom, in transmitting the music, was performing the work in public, or that Telecom infringed the copyright holder's right to broadcast a work by transmitting music on hold to users of mobile telephones. In all, Telecom's challenged activities did not constitute copyright infringement, concluded the court.

Australasian Performing Right Association Ltd. v. Telstra Corporation Ltd, [1994] RPC 299, LEXIS Enggen Library, Cases File (1993) [ELR 16:6:17]

American court abstains in dispute between Turner Entertainment and German licensee over broadcast technology

Degeto Film GmbH signed a television broadcast license agreement with MGM/UA in 1984. Degeto was the exclusive agent for several German public broadcasters, who, along with other companies, formed a cooperative, referred to by the court as "ARD;" the cooperative was obligated by German law to provide programming to the entire German population. During the 1980s, Turner Entertainment acquired the rights to most of the licensed properties.

ARD paid at least $60 million to telecast the specified works, to German-speaking Europe, only in the German language. Under a 1986 amendment, ARD obtained the right to telecast certain properties in English.

ARD began broadcasting the licensed works via the ASTRA 1B satellite in April 1991. As described by Federal Court of Appeals Judge Anderson, the ASTRA 1B has a "footprint" over five times the size of the licensed territory.

In 1993, when Turner learned that ARD intended to broadcast its major program, "Das Erste," which apparently incorporates licensed works, over ASTRA 1B, the company claimed that any transmission via ASTRA would violate the agreement.

The parties filed lawsuits within a week of each other in Germany and the United States. ARD claimed that the "overspill" of ASTRA 1B was legitimate under the agreement because the broadcasts were in German and the licensed territory encompassed all viable markets for German television. ARD noted that it received no profit from the broadcasts.

In November 1993, the German court held that because of its extensive range, ARD had no absolute right under the agreement to broadcast via ASTRA. However, the court observed that the parties had not anticipated the new technology, and considered the fact that ARD might be required to broadcast outside the licensed territory in order to fulfill its legal obligation to reach the German public. The court applied the doctrine of good faith dealing, and attempted a "supplemental interpretation" of the agreement, whereby it was determined that Turner should permit ARD to use ASTRA in order to fulfill its legal obligations, but that ARD would have to pay an increased fee to Turner, to be set by the court at a later date.

In September 1993, a Federal District Court in Georgia granted Turner's motion for a preliminary injunction restraining ARD from telecasting Turner-owned works via the ASTRA satellites; the court granted a stay of the preliminary injunction conditioned on the posting of a $2 million bond. A Federal Court of Appeals stayed the injunction pending appeal.

Judge Anderson noted that the German court's decision was rendered after the District Court denied ARD's motion to dismiss or stay the litigation in deference to the parallel German proceeding. Turner argued that the agreement limited ARD's right to telecast to the licensed territory and that the German court's decision would force Turner to enter into additional contractual provisions widening the defined territory at a set royalty fee.

Judge Anderson stated that the German court's decision was not inconsistent with the agreement, and that the court's "supplemental interpretation" did not violate Georgia public policy or "fundamental notions of decency and fairness."

Furthermore, the central issues in the case required a knowledge of European broadcasting technology and markets, and required reference to European law; most of the witnesses and experts in the litigation would be European; the choice of law and forum provisions also designated the German courts and law; the agreement called for performance, for the most part, in Germany; and the German interest and connection to the case was much more "significant" than the American interest, declared Judge Anderson. In all, "the German forum would seem to be the most sensible venue to determine a just result in this case." In addition to international comity concerns, deference to the German proceedings also would achieve the goals of fairness and efficient use of judicial resources, concluded Judge Anderson, in remanding the case to the District Court with instructions to vacate its preliminary injunction and stay the litigation.

Turner Entertainment Co. v. Degeto Film GmbH, 25 F.3d 1512, 1994 U.S.App.LEXIS 16629 (11th Cir. 1994) [ELR 16:6:17]

Court upholds validity of music publishers' renewal copyrights and rules that songwriters' claims alleging nonpayment of royalties are time-barred

The Goodman Group Music Publishers purchased, in 1965, the publishing catalogs of Tollie Music, Inc., Conrad Publishing Co., Inc. and Gladstone Music, Inc. for $200,000. The Goodman Group assumed the songwriter agreement which Tollie Music and Conrad had made with Calvin Carter, Sr. in the late 1950s. Carter Sr. had relinquished his rights in many of his compositions, including renewal rights, in exchange for royalty payments.

In conjunction with the purchase agreement, Carter Sr., James Bracken, and Bracken's wife Vivian, personally guaranteed and warranted that their companies were the sole and exclusive owners of the compositions in the catalogs they were selling. After the sale, it was determined that many of the works were not owned by Tollie Music, Conrad or Gladstone, and that several other music publishers claimed rights to the compositions in the catalogs. The Goodman Group stopped paying royalties to Bracken.

In 1968, Carter Sr. borrowed $5,000 from the Goodman Group, pledging his rights in certain compositions as collateral. When the loan was not repaid, the Goodman Group stopped paying royalties to Carter Sr.

In 1979, Carter Sr. sought additional money from the Goodman Group, claiming, for the first time, that he had co-authored the composition "Goodnight, Sweetheart, Goodnight." Arc Music, one of the companies comprising the Goodman Group, agreed to pay Carter Sr. $4,000 in exchange for his relinquishing all rights to receive royalties from the exploitation of his compositions.

In 1992, Tollie Carter and Calvin Carter, Jr., the sons of Carter Sr. and the nephews of James Bracken, sued the Goodman Group alleging copyright infringement and other claims. Federal District Court Judge Martin first noted that seven of the compositions at issue originally were copyrighted in 1958 and were renewed by Arc on behalf of Carter Sr. on January 17, 1986 for a renewal term beginning on January 1, 1987. The Goodman Group parties, via the 1965 purchase of the publishing catalogs, became assignees of the renewal rights in Carter Sr.'s compositions.

The Carter sons claimed that they were entitled to the renewal copyrights because Carter Sr. died in July 1986, before the first day of the renewal term, and that the Goodman Group's renewal did not vest.

Judge Martin adverted to Section 304(a) of the Copyright Act which provides that an author, if still living, may renew his/her copyright by applying to the Copyright Office at any time during the last year of the original copyright term. However, if an author is no longer living, the statute provides that his/her widow/widower, children or next of kin have the right to apply for a renewal term.

However, commented the court, the statute is "silent" on the question of when renewal rights vest. Under a 1992 amendment to Section 304, when an application to register the copyright for a renewal term has been made within one year of the expiration of the original term, the renewal right vests in any person who was entitled to the renewal and extension of the copyright "at the time the application is made." Although the 1992 amendments would not apply directly to the instant case, the court expressed the view that it would better further Congressional intent to uphold the validity of the Goodman Group's renewal copyright because the publisher applied for renewal during the year preceding the original term's expiration while Carter Sr. still was alive. Therefore, summary judgment was granted on behalf of the Goodman Group on the copyright infringement claim with respect to the seven specified compositions.

The court granted summary judgment on the copyright infringement claim involving the composition "Here I Stand," since there was no evidence that the Carter parties had any rights in the song.

It then was argued that the Goodman Group parties did not preserve their renewal right in "Cry Over Me" because Arc renewed the copyright in the song on behalf of its two co-authors, Carter Sr. and J.L. Robinson, on December 30, 1986, which was several months after

Carter Sr.'s death. The Goodman Group argued that the Carter parties allowed the composition to enter the public domain by failing to file a renewal application themselves.

The Carter parties responded that Arc's renewal application in December 1986 preserved the renewal term for both Robinson and Carter Sr. Judge Martin, citing 2 Nimmer on Copyright section 9.05[E] at 9-90 (1993), pointed out that when a co-author files an application for copyright renewal, "it is not necessary for the other joint owners to file separately additional renewal applications." Because Carter Sr. died prior to Arc's renewal application, his children were entitled to a renewal and extension of the copyright. But if Robinson was not alive at the time Arc registered for renewal, then Arc's renewal rights did not vest and the renewal was invalid.

The Carter parties did not submit any evidence creating a triable issue of fact as to whether Robinson was alive at the time Arc registered for the renewal term. The court therefore granted summary judgment with respect to the copyright infringement claim pertaining to "Cry Over Me."

In a second set of copyright infringement claims involving fifteen compositions authored by Carter Sr., the Carter parties alleged that the Goodman Group exploited those compositions outside the United States after the expiration of the original copyrights in the 1980s. The Goodman Group admitted exploiting the works under Arc's acquisition of the Conrad catalog. The court granted summary judgment to the Goodman Group because claims alleging copyright infringement occurring outside the United States are not actionable under federal copyright law.

The Carter parties' claims alleging breach of contract, breach of fiduciary duty and fraud derived from the alleged failure to pay Bracken and Carter Sr. royalties under the songwriter agreements. Regardless of their merits, the claims were time-barred, stated Judge Martin, who refused to find that the Goodman Group was estopped from raising the limitations defense. Bracken and Carter Sr. were aware of the Goodman Group's reasons for not paying them royalties, and there was no evidence that the music publisher made any misrepresentation on which either Bracken or Carter Sr. relied which resulted in the failure to sue prior to the expiration of the statute of limitations.

Judge Martin concluded by denying the Carter parties' claim seeking rescission of the 1979 agreement on the grounds of undue influence, duress and unconscionability - any such claim would have expired in 1985.

The court allowed an entity known as Costoma Music Publishing to proceed with a copyright infringement claim upon the submission of a list of the compositions purportedly owned by the company along with proof of

Costoma's rights to them. The Goodman Group had conceded that they inadvertently may have collected monies from some compositions belonging to Costoma and would repay the amount upon such a showing.

Carter v. Goodman Group Music Publishers, 848 F.Supp. 438, 1994 U.S.Dist.LEXIS 2930 (S.D.N.Y. 1994) [ELR 16:6:18]

United States Supreme Court upholds reversal of $27 million damage award to "Butch" Reynolds

In August 1990, Harry "Butch" Reynolds ran in a Monte Carlo race. Reynolds was tested after the competition for illegal performance-enhancing drugs as part of a random drug test conducted after all international track meets. Each of two urine samples apparently contained trace amounts of a steroid banned by International Amateur Athletic Federation regulations. The federation banned Reynolds from all international track events for two years.

Reynolds brought a lawsuit in a Federal District Court in Ohio, arguing, according to Federal Court of Appeals Senior Judge Lively, that the drug test was given negligently and provided an erroneous result. The court dismissed one claim and stayed the remainder of the case after finding that Reynolds failed to exhaust the administrative remedies provided by the Amateur Sports Act and by The Athletic Congress of the United States, the United States national governing body for track and field. The Court of Appeals agreed with the exhaustion requirement, but vacated the District Court judgment and directed that the entire case be dismissed for lack of subject matter jurisdiction.

Reynolds then participated in an independent arbitration; the arbitrator exonerated the athlete, questioning the validity of the drug tests. The federation refused to acknowledge the arbitrator's decision because the arbitration was not conducted under federation rules, and refused to lift Reynolds' two year suspension.

Subsequently, The Athletic Congress exonerated Reynolds. But a federation panel, in 1992, upheld the suspension.

Reynolds then sued the federation in a Federal District Court in Ohio. The court determined that it had personal jurisdiction over the federation and issued a preliminary injunction allowing Reynolds to compete in the trials for the 1992 Olympics. The federation eventually increased Reynolds' two year suspension by four months as punishment for his participation in the U.S. Olympic trials; Reynolds did not compete at the Barcelona Olympics.

When the federation failed to respond to Reynolds' supplemental complaint, the District Court entered a default judgment in Reynolds' favor and awarded the athlete damages of about $27 million, including treble punitive damages. It was found that the federation "acted with ill will and a spirit of revenge towards Mr. Reynolds;" the court cited "the suppression of evidence, threats levied against Reynolds and his fellow athletes, and the extension of Reynolds' suspension..."

The District Court found that it had diversity jurisdiction because Reynolds was a citizen of Ohio and the federation was a foreign association. The court also found that it had personal jurisdiction over the federation, noting that the long-arm statute was satisfied because the federation transacted business with Reynolds in Ohio and because the federation's public announcement of Reynolds' positive drug test adversely affected the athlete in Ohio. The federation, according to the court, had the required minimum contacts with the state in that The Athletic Congress acted as the federation's agent in the United States.

In early 1993, Reynolds began garnishment proceedings against four corporations with connections to the federation. The District Court rejected the federation's motion to quash the proceedings and to vacate the default judgment.

The Court of Appeals, after careful consideration, determined that the District Court lacked personal jurisdiction over the federation. The court declined to find jurisdiction on the basis of purported contract claims. And the federation could not reasonably anticipate being sued in Ohio because of its alleged business dealings with Reynolds, stated Judge Lively. In all, the federation, based in England, owned no property and transacted no business in Ohio, and did not supervise United States athletes in Ohio or elsewhere. Its contacts with

Ohio were superficial and were insufficient to create the requisite minimum contacts for personal jurisdiction.

The court further found that permitting the federation to be sued in Ohio in connection with a press release concerning the allegedly positive drug test results would not comport with due process; that the federation did not waive its personal jurisdiction defense by failing to appear until after the default judgment was entered; and that the federation did not waive its objection to personal jurisdiction by reason of The Athletic Congress's intervention in the action.

The matter was remanded to allow the District Court to dismiss the action for lack of personal jurisdiction over the federation.

In October 1994, the United States Supreme Court let stand the Federal Court of Appeals decision.

Reynolds v. International Amateur Athletic Federation, 23 F.3d 1110, 1994 U.S.App.LEXIS 10806 (6th Cir. 1994) [ELR 16:6:20]

NBA's refusal to allow player participation in promoter's "one-on-one" event does not violate antitrust laws

As described by Federal District Court Judge Hauk, Independent Entertainment Group and ProServ, Inc., in 1989, decided to present an annual pay-per-view broadcast of a one-on-one basketball event, to be known as "King of the Court." When the National Basketball Association refused to allow players to participate in the post-season game, Independent brought an antitrust action.

In granting summary judgment to the NBA parties, Judge Hauk noted that the 1988 collective bargaining agreement and the individual contracts derived from the agreement set forth the exclusive employment obligations of NBA players, including certain restrictions with respect to participating in "off-season" basketball games. It was reasonable as a matter of law, stated the court, "for the member teams of a professional sports league to require their player-employees to remain loyal to the team and the league and not work for any competing entity while they remain employed." The various agreements containing the exclusive employment obligations of NBA players require exclusivity only while the player remains under contract.

The court then found that because the exclusive employment obligations were reasonable as a matter of law under Section 1, the restrictions could not provide the basis of a Section 2 claim. Alternatively, Judge Hauk found that exclusive personal services contracts with employees cannot be "predatory" as a matter of law under Section 2. The NBA did not hire players solely to prevent them from playing for Independent.

Furthermore, observed the court, a monopolist does not have to share its employees with a competitor although it may have done so in the past and although its refusal to share may harm a party's business. Even if the NBA parties intended to exclude Independent from the alleged market by entering into exclusive employment obligations with the NBA players, Section 2 was not violated, announced Judge Hauk, because "the intent to exclude competitors through lawful means cannot be predatory as a matter of law."

It appeared to the court that Independent was attempting to "free-ride on the NBA's investment in its star players and in rebuilding the League during the 1980's. Exclusive employment agreements lawfully prevent such free-riding as a matter of law." Judge Hauk pointed out that the court, after oral argument and full briefing by the parties, previously denied the NBA parties' motion for summary judgment; the NBA had argued that its restrictions on off-season play by NBA players were immune from antitrust attack under the non-statutory labor exemption. The court found that the NBA parties had not shown that the alleged conduct concerned only the parties to the collective bargaining relationship. It was determined that "while the restrictions on off-season play were a mandatory subject of collective bargaining and the product of bona fide arm's-length bargaining, there was a genuine issue of material fact as to whether the off-season restrictions primarily affected only the players as opposed to third parties."

The court concluded by dismissing Independent's pendent state law claims alleging tortious interference with contractual relations or prospective advantage.

Independent Entertainment Group, Inc. v. National Basketball Association, 853 F.Supp. 333, 1994 U.S.Dist.LEXIS 7283 (C.D.Ca. 1994) [ELR 16:6:21]

Professional athlete prevails in action against investment adviser; court orders recalculation of damages

Gordon Jones, a professional football player, entered a business management agreement with Talent Services, Inc. Relying on the advice of John H. Childers, the president and sole shareholder, of Talent Services, Jones and his wife invested in two partnerships. In 1985, the Internal Revenue Service assessed deficiencies regarding the investments; the Joneses settled their tax dispute for $90,000 and, as part of the settlement, were permitted to claim the investments as theft losses.

When Jones sued Talent Services and Childers, a Federal District Court found that the Talent Services parties were negligent and committed fraud, breach of fiduciary duty, breach of contract, and Florida civil RICO violations in the course of representing the Joneses. The court ruled that Talent Services and Childers were jointly and severally liable to Gordon Jones for about $390,000; that Childers was individually liable to Gordon Jones for $50,000 for "mental anguish" caused by Childers' fraudulent conduct and that Talent Services and Childers were jointly and severally liable to Laura Jones for about $73,000 in actual damages and $50,000 in punitive damages.

Federal District Court Senior Judge William M. Hoeveler, sitting by designation, noted that prior to the trial of the case, the District Court, citing Florida's economic loss doctrine, had dismissed all tort claims by Jones against Talent Services. However, the court permitted the Joneses to maintain their tort claims against Childers, finding that there was no contractual relationship between Childers, individually, and either Gordon or Laura Jones; Judge Hoeveler agreed with these rulings.

The court next agreed with the District Court finding that the Joneses' causes of action accrued when they received their first Internal Revenue Service notice of deficiency in June 1985, rather than when their second tax shelter investment was finalized in December 1982. The Joneses had made reasonable attempts to determine the condition of their investments and the potential tax consequences, noted Judge Hoeveler.

The District Court also ruled that even if the statutes of limitations would have begun to run as early as December 1982, they were equitably tolled by Childers' fraudulent concealment of the Joneses' right to a cause of action. Judge Hoeveler, although stating that it was unnecessary to reach the issue of equitable tolling, commented that there was a fiduciary relationship between Childers and the Joneses; that when Laura Jones contacted Childers concerning the investments, Childers' misrepresentations "served to conceal from the Joneses the invasion of their legal rights;" and that the District Court correctly concluded that the Joneses' causes of action were equitably tolled until June 1985.

Judge Hoeveler proceeded to find that the District Court properly ruled that Childers violated certain provisions of Florida's security laws, and that such violations might constitute predicate criminal acts for an award of treble damages under the state's civil RICO statute. The two investments in which the Joneses participated did not, in and of themselves, constitute a pattern of criminal activity, but the "totality" of the evidence as to Childers' business practices with respect to Jones and other investors sufficiently established such a pattern.

The court concluded by remanding the matter to the District Court for reconsideration of the damage award, as suggested by Judge Hoeveler.

Jones v. Childers, 18 F.3d 899, 1994 U.S.App.LEXIS 6530 (11th Cir. 1994) [ELR 16:6:21]

"Rush" parties prevail in action brought by former police officer/ex-husband of author

Creig Matthews, as described by Federal Court of Appeals Judge Jerry E. Smith, was an undercover narcotics officer with the Plano, Texas police department. Matthews trained and worked with police officer Kim Wozencraft whom he eventually married and later divorced. They used drugs, primarily marijuana and cocaine, while on the Plano drug assignment and on subsequent assignments for the Tyler, Texas police department, where they assembled over 200 drug cases.

Matthews and Wozencraft eventually confessed to falsely denying their use of drugs and to falsely testifying that they had bought cocaine from a suspect; the police officers were sentenced to prison terms.

While in prison, Wozencraft, Matthews, and fellow inmate John Rubien agreed that Wozencraft and Rubien would co-author a book based upon the undercover investigations. That book was never completed, but Wozencraft eventually wrote the book "Rush," which was published as a novel by Random House; a film was based on the book.

When Matthews brought a lawsuit claiming breach of contract, division of marital assets, and misappropriation/invasion of privacy, a Federal District Court granted summary judgment to Wozencraft and various parties associated with "Rush."

A Federal Court of Appeals agreed with the District Court that the protection of "name or likeness" under Texas law does not include a cause of action for appropriation of an individual's life story. Judge Smith noted that Matthews raised an issue of fact as to the identity of the "Jim Raynor" character in "Rush," and most likely could be identified from the publication. However, in the court's view, there was nothing unique about Matthews' name or likeness that created value for Wozencraft to appropriate. Wozencraft, in the process of converting factual events into fiction, did not "cash-in" on goodwill associated with Matthews' name, or use Matthews' name as an endorsement of the book. Unlike the goodwill associated with one's name or likeness, the facts of an individual's life, continued the court, "possess no intrinsic value that will deteriorate with repeated use."

The court further observed that "Rush" apparently increased the value of Matthews' story, and declined to bar the purported "appropriation" of the information about Matthews' life since again, there didn't seem to be any concern that the value of such information would be reduced by repeated use. Judge Smith noted that most of the information in "Rush" was a matter of public record, and that a name cannot be appropriated by reference to it within the legitimate mention of public activities.

Even if Texas courts recognized a cause of action for misappropriation of events in one's life, the courts most likely would recognize an exception for biographies, stated Judge Smith. Matthews' claim that appropriation could occur through a fictionalized account of his life was rejected - "Rush," in contrast to the false light cases cited by Matthews, did not use the police officer's real name and the material facts, admittedly, were true.

Judge Smith then found that Wozencraft was entitled to summary judgment, even if Matthews raised an issue of fact on the misappropriation claim, because of free speech and public domain defenses. Although the District Court did not base its holding upon these grounds, Judge Smith stated that they still could serve as the basis for affirming the lower court ruling.

It was determined that "Rush" was protected by the First Amendment, whether viewed as an historical or a fictional work; that Matthews did not establish malice; and that the material facts underlying "Rush" were in the public domain.

With respect to Matthews' contract claim, the District Court had found that the contract signed in prison expired by its own terms on June 1, 1984. Matthews argued that the contract provided a one year term for the co-authors to complete a book, but that if the book was not completed in one year, he and Wozencraft still were to share the proceeds arising from any sale of the "story" of the police officers' activities. Judge Smith found that the expiration of the contract ended the ownership and payment rights in the story among the parties to the contract. The court rejected Matthews' argument that the one-year provision created a deadline only for the portions of the contract dealing with the publication of the co-authored book, and had no effect on any rights with regard to the story. But the provision stated that the "contract" would run for one year - this, along with other factors, indicated to the court that Matthews did not have "a perpetual right to share equally in any proceeds resulting from the story."

Matthews' claim concerning the division of marital property was barred by res judicata - a state court had found that Matthews and Wozencraft did not accumulate any property during their marriage.

Matthews v. Wozencraft, 15 F.3d 432, 1994 U.S.App.LEXIS 3855 (5th Cir. 1994) [ELR 16:6:22]

Lender of production funds to "Easy Money" wins appeal on investment tax credit

As reported at ELR 16:3:13, Adams Apple, a subsidiary of DRL Enterprises, entered into a Production Services Agreement with Paper Clip Productions, the owner of the Rodney Dangerfield film "Easy Money." Adams Apple obtained a commercial lender for most of the financing for the film, and agreed to advance $1.3 million of its own funds for the remaining production costs. Paper Clip agreed to repay Adams Apple by making periodic payments at a rate of about seven percent of the film's gross receipts. If Adams Apple's share of receipts ever exceeded $1.45 million, Paper Clip agreed to then pay five percent of the film's net profits. However, if Adams Apple's share failed to reach $650,000, thirty-six months after the film's release, the company was entitled to receive, in addition to its original share, fifty percent of all revenues generated by the film's eventual television release.

Prior to the execution of the agreement, Paper Clip assigned its rights and obligations to Orion Pictures Corporation. The assignment made Orion responsible for collecting the film's proceeds and for insuring that Adams Apple received its share of the revenues. The agreement did not grant Adams Apple a lien or any other security interest in the film's revenues or profits.

Although "Easy Money" had $9.5 million in unrecouped production costs, Adams Apple recouped its $1.3 million advance as well as an additional $150,000.

DRL, on behalf of Adams Apple, unsuccessfully sought to obtain an investment tax credit for the advance. A Federal District Court found that Adams Apple was not a qualified lender since repayment was not "solely" from the proceeds of the film, and that the company therefore was not entitled to an investment tax credit.

In reversing the District Court decision, Federal Court of Appeals Judge Bauer noted that at the time of the transaction at issue, Internal Revenue Code section 48(k)(1) offered investment tax credits to taxpayers with an "ownership interest" in films "created primarily for use as public entertainment or for educational purposes." The statute calculated an entity's ownership interest on the basis of "the proportionate share of loss which may be incurred with respect to the production costs of such film."

In order to determine whether a lender is a creditor or has an ownership interest, the government asked whether an entity which advanced funds for the production of a film could "look for repayment or relief from liability solely to the proceeds generated from exhibition or disposition of at least a part of the film."

The government argued that Adams Apple did not bear a proportionate share of loss because its repayment was calculated out of gross receipts rather than net profits, thereby decreasing the risk of the company relative to the film's legal owners.

Judge Bauer stated that this position was "untenable." It was observed that Adams Apple put its own money at risk and that the repayment of the loan depended solely on the success of the film. The court rejected the contention that the failure to provide Adams Apple with a security interest in the film's proceeds, and the failure to require Orion to segregate the proceeds owed to the company meant that Adams Apple's right to repayment was not solely from the film's proceeds. The word "solely" did not impose a physical requirement that the film distributor "earmark and segregate the lender's funds," declared the court.

By purchasing a gross receipts participation in "Easy Money," Adams Apple agreed to incur a portion of the risk involved with the film, concluded the court, in remanding the matter with instructions to grant summary judgment to DRL.

DRL Enterprises v. United States, 25 F.3d 470, 1994 U.S.App.LEXIS 11943 (7th Cir. 1994) [ELR 16:6:23]

Surrogate's Court sets transfer date value of Andy Warhol estate at about $509 million

Edward W. Hayes, formerly counsel to the executor of the estate of Andy Warhol, sought to enforce a contract which provided for a fee equal to two percent of the gross value of the estate. The Andy Warhol Foundation for the Visual Arts, the sole residuary beneficiary of the estate, disputed the value attributed by Hayes to the estate's Warhol art assets.

Surrogate Eve Preminger noted that the parties agreed that the value of the art would be determined as of February 1, 1991 and May 1, 1991, the dates of transfer of the art from the estate to the Foundation, and that the value to be determined was the fair market value. Christie's Appraisals compiled inventory lists for about 4,000 paintings, 5,100 drawings, 20,000 prints and 66,000 photographs, catalogued the collection, and assigned a value to each item. The fair market value of each work individually, without regard to the need, if any, for discount, produced a total unit valuation set at about $265,000,000 by the Foundation and at $708,000,000 by Hayes.

The Foundation claimed that the unit values in each category should be discounted, yielding a fair market value of about $103 million. Hayes argued that no discount should be applied.

Surrogate Preminger noted that the experts for the Foundation took a negative view of the marketability of Warhol's art, but that this view was not supported by the empirical evidence. Before preparing the appraisal, observed Surrogate Preminger, Christies did not discuss Warhol's art with art dealers or museum officials in order to acquire information about Warhol's position in the existing market. Christies also failed to consider the importance of Warhol as an artist, "which is relevant to his staying power and marketability. The weight to be given an appraisal is dependent upon the consideration of precisely such factors," commented the court.

Christies limited the focus of the appraisal to its own auction sales and sales by Sothebys, many of its own sales apparently were not considered if they did not support the appraisal, and sales by other auction houses and dealers were ignored, observed Surrogate Preminger - such a limited focus was inadequate when appraising the work of an international artist. Furthermore, auction prices generally are lower than dealers' prices and dealer sales, when available, must be considered.

The court adverted to evidence showing that both the auction and dealer markets have been actively engaged in selling Warhol's art.

Hayes' experts concentrated on retail sales, which inflated some of the values, stated the court. Apart from this, Hayes presented more reliable appraisals than Christies of the drawings, prints and photographs, considering all of the factors for determining fair market value, including the importance of comparable sales and the marketability of Warhol's art. It appeared that with regard to the paintings and sculpture, Hayes' expert multiplied Christies' values by a factor of 1 1/2 or 2 to arrive at the unit values. This was not a reliable way to estimate the fair market value, in the court's view.

Another factor cited as affecting the reliability of the Christies' appraisal was the relationship between the auction house and the Foundation. The executor initially employed Christies to
inventory and appraise the art, but the auction house staff communicated primarily with the Foundation's president. Surrogate Preminger noted that courts "have frequently disregarded expert testimony of an appraiser where there appears to be bias or collusion with the owner/taxpayer." The evidence in the instant case did not rise to collusion between the Foundation and Christies, but did demonstrate a conflict on the part of Christies in seeking future business from the Foundation at the same time it was retained to provide an impartial appraisal.

In turning to the application of a blockage discount, the court described the discount as arising due to the need to fix a fair market value as of a specific date, making it necessary to decide whether the entire "block" of art can be sold immediately without depressing the market. If an immediate sale would depress the market, value cannot be ascertained merely by totalling the unit values of each item - the parties would have to consider the amount which would ultimately be received "by a judicious sale of the items in the collection over whatever period of time would be necessary to achieve maximum value. In most situations this process will result in a discount from the total unit value."

Furthermore, the value to be ascertained is different from the value obtained at a forced or immediate sale, and the amount arrived at after the appropriate discount is applied is not the same amount as would be received in a forced sale.

The factors to be considered in setting the appropriate discount include the nature and number of the artworks involved, the marketability of the particular artist, the likelihood of future markets for the work, the stability or permanence of the reputation of the artist, the likelihood of appreciation or risk of depreciation in both the art market and the work of the particular artist, and the length of time necessary for the various markets to absorb all of the work.

According to Surrogate Preminger, neither of the parties attempted to evaluate these factors, choosing to focus on only one method of determining value. Hayes' experts concluded that Warhol's art would appreciate at a rate that precluded the need for any discount and did not consider other possibilities. The Foundation considered only the number of works in each category, failing to evaluate the extent to which the market could absorb the art, the possibility of appreciation, or, most importantly, the qualities particular to Warhol and his work.

It was noted that the Foundation established that Warhol's art could not all be sold immediately without depressing the market. Given Christies' failure to consider the various markets beyond the two main auction houses in New York and the failure to consider the possibility of appreciation, it seemed "clear" to Surrogate Preminger that Christies' discount was too high. On the other hand, the court stated that "a willing buyer in possession of the relevant facts would conclude that an element of risk exists in holding a block of Warhol art over a lengthy period."

Surrogate Preminger, in proceeding to value the estate, cited the fact that some 2,500 works, constituting less than four percent of the collection, had been sold for $32 million - the sales occurred in a competitive market where another $200 million worth of previously owned

Warhol art was also sold. The experts agreed that during the six year period after Warhol's death, the art market experienced both an extreme high and an extreme low. With comparable sales in the future, and even if the highs and lows in the market are less drastic, Warhol's art might have a potential total unit value of over $800 million (25 times $32 million). Christies' unit valuation of about $265 million therefore would be "questionable" when compared with actual estate sales, declared Surrogate Preminger.

The court next carefully considered each of the categories of Warhol's work. Upon finding, in part, that the evidence refuted Christies' assumption that there was no market for Warhol's photography, the court set a value of $64 million for the works (a value of $80 million, discounted by 20 percent).

Unlike the photography category, there was extensive sales information for the paintings category, much of which, according to Surrogate Preminger, Christies did not consider. The court increased the unit values assigned by Christies by 60 percent to about $312 million. Based on the smaller number of works in the category, the particular importance of the paintings as representing Warhol's finest creations, and the fact that the sales would take place over a long period of time, the court applied a discount of 20 percent and set a transfer date value of about $250 million.

The sales information also supported an increase in the value of the drawings category to $45 million. Given the number of works in the category and the limited information presented concerning the scope of the market for the medium, the court applied a discount of 35 percent, resulting in a value of about $30 million.

The court set the value of the prints category at about $48 million (a $68 million value discounted by 30 percent).

In all, the transfer date value of Warhol's art was determined to be about $390 million. Including the non-art assets at the stipulated value of $119 million, the fair market value of the gross estate was about $509 million, ruled the court.

Estate of Andy Warhol, New York Law Journal, p. 29, col. 5 (Surrogate's Court, April 18, 1994) [ELR 16:6:24]

Dismissal of merchandising sublicensee's claims against Andy Warhol estate is upheld

In late 1987, as described at ELR 15:3:11, the estate of Andy Warhol granted Schlaifer Nance & Company an exclusive license to use Warhol's artwork in connection with various products. The estate retained the right of approval, not to be unreasonably withheld, of proposed uses of the artwork.

In December 1989, Schlaifer Nance granted Artwear, Inc. a sublicense to manufacture and distribute T-shirts using images created by Warhol; Artwear paid Schlaifer Nance $50,000 on the signing of the sublicensing agreement, of which $25,000 was forwarded to the estate.

Unlike the license agreement, the sublicense agreement did not impose a requirement of reasonableness in connection with the approval of a product. And, according to New York appellate court Judge Joseph P. Sullivan, by the time the sublicense agreement was signed, the relationship between Schlaifer Nance and the estate had deteriorated - none of Artwear's products was ever approved. In 1990, Schlaifer Nance filed a lawsuit claiming that the estate failed to cooperate or use its "best efforts" with respect to the company's licensing and sublicensing activities, and that the estate had misrepresented the scope of the rights it could lawfully grant. The licensee also brought an arbitration proceeding, and, in 1991, was awarded about $4.1 million, based on a finding that the estate breached the licensing agreement and acted "in bad faith and in willful disregard of [Schlaifer Nance's] rights" by, among other actions, unreasonably disapproving products and failing to cooperate in promoting the licensing program; the award included punitive damages. The panel also found that the estate's disapproval of Artwear's T-shirts was motivated by its wish "to be rid of [Schlaifer Nance]."

Artwear's lawsuit alleged, in part, that the sublicensee was a third party beneficiary of the license agreement and was entitled to recover damages for the breach of that agreement.

A New York trial court found that the license agreement did not provide for enforcement by Artwear, and that the company was an incidental beneficiary of the agreement without standing to sue for its enforcement.

The court dismissed Artwear's causes of action against the Warhol parties for prima facie tort, breach of the license and sublicense agreements, fraud as against Schlaifer Nance, and tortious interference with contract. The court reiterated that Artwear was not entitled to claim damages arising from the breach of the license agreement since the company was not a party to that agreement or a third party beneficiary.

A New York appellate court, in agreeing with the trial court's decision, discussed only Artwear's cause of action for tortious interference and the company's status as a third party beneficiary in connection with that claim.

Judge Sullivan emphasized that Artwear was an incidental beneficiary of the license agreement; that any benefit under the license agreement to those selected as sublicensees was "an incidental by-product of the agreement;" and that the arbitration panel, contrary to Artwear's claim, did not find that the company was a third party beneficiary of the license agreement.

Artwear failed to allege that the estate intentionally induced a breach of the sublicense agreement. And the arbitration panel had not found that the estate induced Schlaifer Nance to breach the sublicense agreement, or that Schlaifer Nance breached the sublicense agreement at all. There was no allegation of an intent on the part of the estate to harm Artwear without business or other justification. Artwear was not entitled to transform an alleged breach of the license agreement by the estate, a party with which it was not in privity, into a tort claim; the company must seek its remedy against Schlaifer Nance.

Artwear, Inc. v. Hughes, 1994 N.Y.App.Div.LEXIS 8523 (N.Y.App. 1994) 25

Dispute over use of artist's designs for giftware items is resolved

In 1988, Potpourri Press, a distributor of giftware items, signed a three year contract agreeing to pay artist Christina Ladas $100,000 per year and other consideration in exchange for the creation of artwork for items distributed by the company. The company also paid Ladas $100,000 in 1992, but the parties then terminated their relationship.

In 1993, Ladas registered her name as a trademark and subsequently registered a copyright in the "Fancy Tulips" and "Della Robbia" designs she had created in 1992. The standard course of dealing between the parties was that Ladas would assign copyrights in her designs to Potpourri - Ladas refused to sign an assignment of the copyright in the cited designs.

The Fancy Tulips design was, as described by Federal District Court Judge Nickerson, a "stylized, flamboyant grouping of light red tulips." The Della Robbia design featured "a heart-shaped gathering of evergreen, holly and fruit."

When Potpourri continued to market the collections featuring Ladas' designs, the artist brought an action alleging copyright and trademark infringement. Potpourri admitted that it had mistakenly placed a copyright notice in its name on some items in the Fancy Tulips and Della Robbia collections, but stated that it had halted the shipment of those collections and informed its manufacturers to delete the notice from future products. Potpourri also proposed to place nonremovable stickers over the copyright notice on all mislabeled items and to include in all shipments a note explaining that the purpose of the stickers was to correct an erroneous copyright notice. The court granted an injunction preventing Potpourri from falsely claiming copyright ownership in the Fancy Tulips and Della Robbia collections and determined that the stickers should include a copyright notice bearing Ladas' name; that retailers should be advised that Ladas holds the copyright in those designs; and that Potpourri should provide corrective stickers to outlets which already had received shipments of the erroneously labeled items.

Judge Nickerson found that the course of dealing between the parties gave Potpourri a license to manufacture and distribute its giftware collections and items created with Ladas' artwork; the court denied Ladas' request for a preliminary injunction to prevent the further use of the Fancy Tulips and Della Robbia designs.

Ladas also claimed that Potpourri's continued marketing of a collection known as "Christina" violated her registered trademark "Christina Ladas," as did the appearance of Ladas' signature "Christina" on items in the Fancy Tulips collection.

Potpourri began marketing the "Christina" collection under that name with Ladas' consent, observed the court, and the artist chose to sign her first name on items she designed for various collections. Ladas "encouraged the use of her name and the appearance of her signature in items in Potpourri's line." Ladas registered her name as a trademark five months after she stopped creating designs for Potpourri. Judge Nickerson stated that Ladas acquiesced in Potpourri's use of "Christina" in the collections for which the artist produced the artwork and that Potpourri therefore demonstrated an "extremely high likelihood" of prevailing on the affirmative defense of acquiescence.

Ladas v. Potpourri Press, Inc., 846 F.Supp. 221, 1994 U.S.Dist.LEXIS 3215 (E.D.N.Y. 1994) [ELR 16:6:26]

Film production crew members are not employees, rules Wisconsin appellate court

David Larson, a Wisconsin television producer, generally hires a production crew consisting of a director, a camera operator, a lighting person, an engineer and an editor; filming and the editing take place in studio space leased by Larson, who provides the production equipment. Larson pays crew members on a half-day or full-day basis, but pays for editing service at an hourly rate.

The Wisconsin Department of Industry Labor and Human Relations determined that seven individuals working as members of Larson's film production and editing "crew" were Larson's employees. An administrative law judge affirmed the initial determination, with a minor exception. The Labor and Industry Review Commission affirmed the administrative law judge, but a trial court reversed the commission's decision.

A Wisconsin appellate court affirmed the trial court judgment, noting that the crew members contracted to work on individual projects, rather than for a fixed period of time; are free to turn down work from Larson; are free to work for other companies; and have considerable discretion in exercising their special skills based on training and experience.

It also was shown that the crew members worked together in a "collaborative" manner and that Larson did not exercise control or direction over the means to achieve a specified result.

The commission erred in relying on evidence concerning the percentage of income received from Larson to conclude that the producer did not meet his burden of showing that the crew members were economically independent, stated the court; the crew members' independently established businesses existed "separate and apart from the relationship" with Larson -they set up separate businesses, provided their services out of those businesses, and assumed the attendant financial risks.

Larson v. Labor and Industry Review Commission, 1994 Wisc.App.LEXIS 535 (Wisc.App. 1994) [ELR 16:6:27]

Dispute over Simon & Schuster's obligation to publish work of deceased author requires further proceedings

In June 1987, Alternative Thinking Systems entered into a contract with Simon & Schuster for the publication of a book to be written by Ian Borts. The advance was $162,500, payable in four equal installments, with the first payment made upon signing. Borts, according to Federal District Court Judge Miriam Goldman Cedarbaum, was a "self-described 'professional deep-trance medium.'" The publisher accepted Borts' manuscript and made the second advance payment. In September 1988, Borts died at age 32.

Simon & Schuster subsequently notified ATS that it was delaying the publication of the book, and offered, pursuant to a contract provision, to allow the rights to the book to revert to ATS and to allow ATS to keep the advance payments already received if the book were not published within 180 days. ATS demanded that all remaining advances be paid immediately, given Simon & Schuster's "willful refusal to publish."

In 1992, ATS sued Simon & Schuster for breach of contract, citing the contractual provision whereby the company agreed to publish Borts' book within eighteen months of accepting the manuscript. Judge Cedarbaum first rejected Simon & Schuster's argument that, absent bad faith, a publisher has an absolute right to decide not to publish a book. The court then determined that questions of fact were raised regarding the parties' intentions with respect to Simon & Schuster's duty to publish, and regarding whether Simon & Schuster had decided to delay publication or to cancel publication of Borts' work. Certain extrinsic evidence suggested that the parties did not intend to grant Simon & Schuster the absolute right to decide not to publish the book, leaving ATS with only the contractual remedy. But more information was required concerning the negotiation of the contract, and the court, accordingly, denied the parties' motions for summary judgment on ATS's claims.

Judge Cedarbaum denied Simon & Schuster's motion for summary judgment on its counterclaims seeking the return of the advance payments made to ATS, and struck the publisher's affirmative defenses of "frustration" and anticipatory breach by ATS - Borts' death, which followed Simon & Schuster's acceptance of the final manuscript, did not constitute a breach of the contract.

Alternative Thinking Systems, Inc. v. Simon & Schuster, 853 F.Supp. 791, 1994 U.S.Dist.LEXIS 7529 (S.D.N.Y. 1994) [ELR 16:6:27]

"PrimeTime Live" prevails in action alleging defamation, trespass and violation of wiretapping statutes

Dr. James Desnick allowed John Entine, the producer of "PrimeTime Live," to interview the medical staff and to film live cataract surgery at the Desnick Eye Center in Chicago. Entine had assured Desnick that the program segment would not involve "surveillance 'ambush' journalism techniques or 'undercover' techniques." However, Desnick learned that the program had hired "undercover" patients to visit branch offices of the eye center, and that concealed videotaping and audio recording equipment was used during the "undercover" visits. Prior to the June 1993 broadcast, Desnick also learned that PrimeTime Live allegedly was relying upon information provided by a former employee of the eye center. The former employee appeared during the broadcast and stated, in part, that eye center technicians "tampered with auto-refractors when older patients came in for eye exams so that it would appear that they had cataracts."

Federal District Court Judge Nordberg rejected Desnick's trespass cause of action for failure to state a claim upon which relief could be granted; stated that

Eye Services Ltd., a corporation, could not bring an action for invasion of privacy; found that two eye center doctors failed to state a claim for invasion of seclusion; and dismissed a claim alleging the violation of the federal wiretapping statute and Wisconsin's wiretapping statute.

In turning to Desnick's fraud claims, the court declined to find that Desnick would have denied the "undercover" patients access to the branch offices if Entine had not falsely represented that the PrimeTime Live segment would be a fair and objective report which did not use "ambush" journalism techniques.

After refusing to dismiss Desnick's breach of contract claim, Judge Nordberg observed that, accepting all of the complaint's allegations as true, Desnick apparently only claimed that one short passage of the program was false and defamatory. Even if the PrimeTime Live parties had eliminated the passage concerning the "rigging" of auto-refractors, the program's depiction of Eye Services and its physicians "would have been just as negative," stated the court, and dismissed the defamation claim accordingly.

Desnick v. Capital Cities/ABC, Inc., 851 F.Supp. 303, 1994 U.S.Dist.LEXIS 4029 (N.D.Ill. 1994) [ELR 16:6:28]

Court issues decision in subsequently-settled age discrimination action brought by former CBS news correspondent

In a decision issued in March 1994, but only recently published, a Federal District Court in New York ruled that John W. Sheahan raised genuine issues of material fact as to his age discrimination claims against CBS, thereby precluding summary judgment. The court, however, determined that Sheahan did not establish injury as a result of CBS's alleged oral promise to transfer him from his position as its China-based correspondent and granted the broadcaster summary judgment dismissing Sheahan's promissory estoppel and fraud claims.

CBS fired Sheahan, a correspondent for the CBS News Division of CBS Inc. and Columbia Television, in June 1991, seventeen months before his 55th birthday. Sheahan, who had worked for CBS from 1968 until 1991, would have been entitled to a full pension and health benefits if he remained with the company until he was 55. CBS claimed that the firing occurred due to the "downsizing" of the news division.

Judge Sotomayor, among other factors, noted that CBS apparently offered reassignments to younger employees whose positions were eliminated during the 1991 layoffs, but did not provide the same opportunity to older employees.

In April 1994, as reported at ELR 16:3:37, the parties agreed to settle the lawsuit, on undisclosed terms.

Sheahan v. CBS Inc., 1994 U.S.Dist.LEXIS 2623 (S.D.N.Y. 1994) [ELR 16:6:28]

Cable company is subject to sales tax in connection with installation of trunk distribution system

Four affiliated cable television companies, pursuant to municipal franchises, constructed trunk distribution systems of coaxial cables, amplifiers and filters under public streets and through public easements. The New York State Department of Taxation and Finance imposed sales and use taxes upon, among other items, the cable companies' payments to subcontractors for installing the distribution systems.

An Administrative Law Judge sustained the portion of the assessments imposing sales taxes on the payments made to the subcontractors. The determination was upheld by a Tax Appeals Tribunal on the ground that the trunk distribution systems did not constitute capital improvements exempt from sales tax.

An appellate court noted that the statutory definition of a capital improvement is an addition or alteration to real property which "(A) substantially adds to the value of the real property, or appreciably prolongs the useful life of the real property; and (B) becomes part of the real property or is permanently affixed to the real property so that removal would cause material damage to the property or article itself: and (C) is intended to become a permanent installation" (emphasis by the court).

After stating that the parties agreed that the first two elements of the definition were established, Presiding Judge Cardona modified the Tribunal's determination by annulling it as to three of the cable companies because the decision was not based upon evidence in the record, but upon the failure of the companies to introduce their franchise agreements into evidence to support their claim that they intended the installation of the systems to be permanent. However, Capital District Better TV introduced a franchise agreement containing a removal provision; the provision could have been considered as evidence negating the intent of permanency on the part of the company, noted Judge Cardona, although it could not serve as a basis for inferring the existence of similar removal clauses in the franchise agreements of the other cable companies.

Capital District's franchise agreement reserved to the granting municipality the right to acquire the cable company's distribution system upon termination of the special franchise or to require the company to remove its trunk distribution system.

The Tribunal's determination that the trunk distribution system did not constitute a capital improvement was rational and supported by substantial evidence, concluded the court.

Matter of Capital District Better TV Inc. v. Tax Appeals Tribunal of the State of New York, New York Law Journal, p. 21, col. 3 (N.Y.App., Feb. 3, 1994) [ELR 16:6:29]

Operators of swap meet are not liable in connection with vendors' sale of allegedly counterfeit music tapes

Fonovisa, Inc., claiming that several vendors at the Cherry Auction swap meet were selling counterfeit music tapes, sued Cherry Auction and its owners for direct and indirect copyright and trademark infringement. Fonovisa alleged that Cherry Auction was aware of the vendors' infringing sales and took no remedial measures.

A Federal District Court in California rejected Fonovisa's copyright infringement claim, noting that the company did not show that the Cherry Auction parties reproduced, prepared, or distributed Fonovisa's copyrighted works.

In turning to the cause of action for contributory infringement, the court stated that although Fonovisa alleged that the Cherry Auction parties knew of the purported violations, Fonovisa did not claim that the Cherry Auction parties exercised any control over the vendors by promoting, advertising or encouraging the sale of counterfeit products, or by protecting the identity of the purported infringers. Merely renting booth space is not "substantial participation" in a vendor's infringement activity, stated Chief Judge Coyle.

The court next rejected Fonovisa's vicarious liability claim, finding that the Cherry Auction parties did not supervise or profit from the vendors' sales. The fact that Cherry Auction can refuse space to a vendor does not constitute supervisory power in the context of vicarious infringement.

Furthermore, declared Chief Judge Coyle, Cherry Auction was not in the best position to guard against intellectual property violations - imposing vicarious liability would force the swap meet to take measures which might "lead to perverse economic consequences, driving up the price of running a swap meet and renting a space, thereby depriving the public of a well-known cheap marketplace."

The court also declined to infer Cherry Auction's direct financial benefit from the vendors' activities. There was no suggestion that the swap meet reserved for itself a share of the receipts from sales of the tapes. And it was unlikely that in the absence of counterfeit tape sales, Cherry Auction's booth space rentals would decrease.

The court then rejected Fonovisa's claims for contributory and vicarious trademark infringement. Assuming that the Cherry Auction parties had knowledge of direct infringement, the complaint failed to allege that the swap meet operators supplied a "product" to the vendors. Cherry Auction did not provide the vendors with products or goods that would reach consumers as an object causing likely confusion, noted the court. It was not likely that the "ambience, ethos and nature" of the swap meet would confuse buyers into believing that they were getting authentic music product, stated the court.

In all, the Cherry Auction parties did not act as joint tortfeasors with the vendors, i.e., in concert to accomplish some common purpose or plan and whose concerted acts cause the complained-of harm.

The court distinguished Hard Rock Cafe Licensing Corp. v. Concession Services, Inc., 955 F.2d 1143 (7th Cir. 1992; ELR 14:2:9), in which a Federal Court of Appeals stated that a flea market operator might incur contributory liability for the alleged sale of Hard Rock Cafe counterfeit T-shirts if the company knew or had reason to know of the sales. Chief Judge Coyle refused to follow a decision which, in his view, would impose liability "on third parties who have never had a traditional role in enforcing the Lanham Act." It should be noted that the Hard Rock court remanded the case for further findings on the issue of the flea market operator's contributory liability.

Cautioning that secondary liability in trademark infringement is more narrowly drawn than in copyright infringement, Chief Judge Coyle concluded by declining to extend vicarious liability to reach the Cherry Auction parties. Vicarious liability for trademark infringement requires that a party and the alleged infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties, or exercise joint ownership or control over the infringing product - Fonovisa's allegation did not suggest that Cherry Auction and the vendors shared such relationships. The court, accordingly, granted the swap meet owners' motion for dismissal.

Fonovisa, Inc. v. Cherry Auction, Inc., 847 F.Supp. 1492, 1994 U.S.Dist.LEXIS 11412 (E.D.Ca. 1994) [ELR 16:6:29]

Briefly Noted:

Tonya Harding Matter.

In May 1994, a Federal District Court in Oregon dismissed Tonya Harding's breach of contract action against the United States Figure Skating Association. Harding had sought to enjoin the association from holding a planned disciplinary hearing.

Judge Panner, although expressing concern about judicial intervention in a disciplinary hearing held by a private association, stated that such intervention was appropriate in this case because if the association had not been enjoined from holding a proposed hearing on March 10, 1994, Harding would have suffered serious irreparable harm. The court had concluded that Harding was entitled to additional time to prepare for the hearing, and ordered the association to comply with the requirement in its own bylaws that the hearing be set at a time reasonably convenient for all parties.

Judge Panner granted the association's motion for reconsideration because the circumstances requiring the injunction no longer existed - Harding resigned from the association and pled guilty to certain criminal charges. The association's disciplinary hearing was set for June 29, a date reasonably convenient for all parties; the court, accordingly, vacated the March injunction and dismissed the action as moot.

Harding v. United States Figure Skating Association, 851 F.Supp. 1476, 1994 U.S.Dist.LEXIS 5789 (D.Ore. 1994) [ELR 16:6:30]

Employment Termination/"Jimmy the Greek."

In 1988, James Snyder, known as "Jimmy the Greek," gave an interview, unconnected with his employment as a television football analyst and commentator at CBS Inc., to a Washington, D.C. television station. During the interview, Snyder commented about the role of black athletes in sports. CBS subsequently fired Snyder and issued a statement condemning his comments.

When Snyder sued CBS for age discrimination, a New York trial court granted the broadcaster's motion for summary judgment.

An appellate court has upheld the trial court ruling, noting that the evidence indicated that CBS, prior to Snyder's interview comments, was planning to renew his employment for the upcoming season. There was a legitimate, nondiscriminatory reason for Snyder's termination - Snyder did not show that such reason was pretextual.

Snyder v. CBS Inc., 1994 N.Y.App.Div.LEXIS 5797 (N.Y.App. 1994) [ELR 16:6:30]

Employment Termination.

Joist Brandis alleged that Lightmotive Fatman, Inc. orally offered him employment for fourteen weeks at $2,000 a week to work as the gaffer on the film "Super Mario Brothers." Brandis claimed that he began work on the project but that the production company soon terminated his employment.

A North Carolina trial court granted Lightmotive Fatman's motion to dismiss Brandis' claims.

An appellate court noted that Brandis alleged the existence of an employment contract containing a specific duration of employment; that this type of employment contract was not terminable at will; and that the trial court erred in granting the motion to dismiss the breach of contract claim.

The court also reinstated Brandis' fraud claim, but affirmed the dismissal of a claim alleging the violation of the state's Unfair and Deceptive Practices Act.

Brandis v. Lightmotive Fatman, Inc., 1994 N.C.App.LEXIS 543 (N.C.App. 1994) [ELR 16:6:31]

Copyright Infringement/Music.

A Federal District Court in Arkansas has ruled that Omni Communications, the operator of radio station

KEZQ-FM in Sheridan, engaged in the unlicensed broadcast of copyrighted musical works. The court also found that W.J.Wheeler, an officer and sole shareholder of Omni, as well as the general manager of the station, had the right and ability to supervise the infringing activity and "an obvious and direct financial interest in exploitation of copyrighted material." Therefore, stated Judge Eisele, both Omni and Wheeler were jointly and severally liable as infringers for the public performance of various works represented by ASCAP.

Judge Eisele granted the copyright owners injunctive relief, costs and attorneys' fees, and statutory damages of $2,500 for each infringement, for a total of $50,000.

Unicity Music, Inc. v. Omni Communications, Inc., 844 F.Supp. 504, 1994 U.S.Dist.LEXIS 2405 (E.D.Ark. 1994) [ELR 16:6:31]

Previously Reported:

The following cases, which previously were reported in the Entertainment Law Reporter, have been published: Altmann v. Television Signal Corporation, 849 F.Supp. 1335 (16:3:10); Newton v. Thomason, 22 F.3d 1455, 1994 U.S.App.LEXIS 8965 (16:3:3); Nintendo of America, Inc. v. Lewis Galoob Toys, Inc.,16 F.3d 1032, 1994 U.S.App.LEXIS 2610 (16:3:26); Freeman v. Johnston, 84 N.Y.2d 52, 1994 N.Y.LEXIS 1435 (16:4:26); Glendora v. Kofalt, 1994 N.Y.Misc.LEXIS 365 (16:5:22).

The decision in National Football League Players Association v. Pro-Football, Inc., published at 1993 U.S.Dist.LEXIS 18567 (16:3:33), also has been published at 849 F.Supp. 1. The decision in Brown v. Pro Football, Inc., published at 1994 U.S.Dist.LEXIS 2344 (16:3:34), also has been published at 846 F.Supp. 108.

The Ninth Circuit, according to a notation at 1994 U.S.App.LEXIS 10349, has stated that the decision in Accent Films v. Universal City Studios, Inc. (ELR 16:3:4) "is not appropriate for publication and may not be cited to or by the courts of this Circuit except as provided by the 9th Cir. R.36-3."

The United States Supreme Court has let stand the decisions in Moldea v. New York Times Company (16:5:14), and in Preferred Communications, Inc. v. City of Los Angeles (16:3:23).

The United States Supreme Court has denied certiorari, 1994 U.S.LEXIS 2914 (1994) in National Collegiate Athletic Association v. Miller (16:2:16). [ELR 16:6:31]

NEW LEGISLATION & REGULATIONS

California extends provisions of "Son of Sam" law to potential profits from convicted felon's business enterprises

California has amended Section 2225 of the state's Civil Code. The statute, referred to as the "Son of Sam" law, requires that proceeds in connection with the sale of material based on the story of a felony for which a felon was convicted, as defined, be subject to a five year, involuntary trust from which victims of the crime may recover, as specified.

The amendment expands these provisions to apply as well to "all income from anything sold or transferred, including any right, the value of which is enhanced by the notoriety gained from the commission of a felony for which a convicted felon was convicted."

The amended statute, according to the Legislative Counsel's Digest, sets forth procedures whereby a beneficiary may recover his/her interest in the proceeds or profits in the trust, and also provides that any unclaimed profits remaining in trust at the end of the five year period shall be transferred to the Controller for allocation to the Restitution Fund, a fund for the payment of victim claims.

Prior to the distribution of any proceeds to a beneficiary, a court must determine whether the convicted felon has failed to pay any portion of a restitution fine or penalty fine, or any restitution imposed as a condition of probation. A court also must determine whether the felon is obligated to reimburse a governmental body for the costs of his/her defense, and whether a portion of the proceeds must be applied to the payment of reasonable attorneys' fee incurred in the criminal proceeding related to the felony, or any appeal, or in defending an action brought under Section 2225. The court shall order payment of these obligations prior to any payment to a beneficiary, pursuant to the statute, except that sixty percent of the proceeds or profits shall be reserved for payment to the beneficiaries. Prior to the amendment of the statute, only ten percent of the proceeds or profits were reserved for such beneficiary payments.

The legislature declared that the act was an "urgency statute necessary for the immediate preservation of the public peace, health, or safety;" the act took immediate effect on September 13, 1994.

California Senate Bill No. 1330, 1993 CA S.B.1330 (1994) [ELR 16:6:32]

California bars witnesses and jurors in criminal cases from receiving compensation for information about pending trial

Under existing California law, any person who tampers with a jury list is guilty of a felony. In September 1994, California Governor Pete Wilson signed two bills, effective January 1, 1995, concerning the sale of information by witnesses and jurors in criminal trials. SB 1999 adds Section 116.5 to the Penal Code. The section provides that a person is guilty of tampering with a jury when, prior to, or within 90 days of, discharge of the jury in a criminal proceeding, he or she confers any payment or benefit upon a juror (or upon a third person who is acting on behalf of a juror) in consideration for the juror supplying information in relation to an action or proceeding. The violation of this provision would be a misdemeanor. And upon conviction under the section, any compensation received in violation of the section would be forfeited and deposited in the Victim Restitution Fund.

Existing law prohibits practicing any fraud or deceit, or knowingly making or exhibiting any false statement, representation, token, or writing, to any witness or person about to be called as a witness upon any trial, proceeding, inquiry, or investigation authorized by law with the intent to affect the testimony of the witness.

Section 132.5 has been added to the Penal Code. The section prohibits a person from accepting or receiving, directly or indirectly, any payment or benefit in consideration for providing information obtained as the result of witnessing an event or occurrence that he or she knows, or reasonably should know, is a crime, or having personal knowledge of facts that he or she knows, or reasonably should know, may require that person to be called as a witness in a criminal prosecution.

The violation of this section will be a misdemeanor, punishable by imprisonment in a county jail for not exceeding six months, by a fine not exceeding $1,000, or by both. Again, upon conviction under the section, in addition to the cited penalty, a party must forfeit any compensation received in violation of the section.

The section shall not apply if more than one year has elapsed from the date of any criminal act related to the information that is provided under Section 132.5 unless prosecution has commenced for that criminal act. If prosecution has commenced, the section shall apply until the final judgment in the action.

The section does not apply to lawful compensation paid to expert witnesses, investigators, employees, or agents by a prosecutor, law enforcement agency, or an attorney employed to represent a person in a criminal matter; to lawful compensation provided to an informant by a prosecutor or law enforcement agency; or to compensation paid to a publisher, editor, reporter, writer, or other person connected with or employed by a newspaper, magazine, or other publication or a television or radio station, for disclosing information obtained in the ordinary course of business. For purposes of the section, "information" does not include a photograph, videotape, audiotape, or any other direct recording of events or occurrences.

SB 1999 also adds Section 1669.7 to the Civil Code; the section states that "a contract for the payment of money or other consideration in violation of Section 132.5 of the Penal Code is void as contrary to public policy." Specified government officials are authorized to bring a civil action to enjoin the enforcement of a contract that violates Section 132.5.

Existing law also requires the court, at each adjournment of the court before the submission of the cause to the jury, to admonish the jury that it is their duty not to converse among themselves, or with anyone else, on any subject connected with the trial, or to form or express any opinion thereon until the cause is finally submitted to them.

Section 1122 of the Penal Code has been amended to additionally require the court to instruct the jury generally concerning its basic functions, duties, and conduct after it has been sworn and before the people's opening address. The instructions would be required to include, among other matters, the admonition that jurors shall not read or listen to any accounts or discussions of the case reported by newspapers or other news media, that they shall not visit or view the premises or place where the offense or offenses charged were allegedly committed or any other premises or place involved in the case, and that prior to, and within 90 days of, discharge, they shall not request, accept, agree to accept, or discuss with any person receiving or accepting, any payment or benefit in consideration for supplying any information concerning the trial.

AB 501 contains similar provisions, and notes that Section 132.5 "is intended to preserve the right of every accused person to a fair trial, the right of the people to due process of law, and the integrity of judicial proceedings. This section is not intended to prevent any person from disseminating any information or opinion."

California Senate Bill No. 1999, 1994 Cal ALS 869, 1994 Cal SB 1999, Stats 1994 ch 869(1994), California Assembly Bill No. 501, 1994 Cal ALS 870, 1994 Cal AB 501; Stats 1994 ch 870 (1994) [ELR 16:6:32]

California amends talent agency regulations concerning client funds

California requires the licensing of talent agencies by the Labor Commissioner, and establishes various requirements and prohibitions with respect to the operation and management of talent agencies. Section 1700.25 of the Labor Code has been amended, effective January 1, 1995, to require a licensed talent agency receiving funds on behalf of an artist to deposit that amount in a trust fund account; the funds, less the agency's commission, must be disbursed to the artist within thirty days after receipt. The former law imposed a fifteen day disbursement requirement.

An agency will be permitted to retain funds beyond thirty days of receipt to offset an obligation of the artist to the agency that is then due and owing, or if the funds are the subject of a controversy pending before the Labor Commissioner concerning the amount of a fee allegedly
owed to the agency. The withholding of funds by an agency beyond the thirty day period would be considered a controversy subject to the jurisdiction of the

Labor Commissioner if disputed by the artist, if the dispute is referred to the Labor Commissioner, and if the contract of the parties does not contain an arbitration provision preempting the Labor Commissioner's jurisdiction.

The statute authorizes the Labor Commissioner to award attorneys' fees and interest to an artist whose funds are withheld by an agency in willful violation of the thirty day disbursement requirement.

Section 1700.40 of the Labor Code has been amended to prohibit talent agencies from collecting a registration fee. If an agency collects from an artist a fee or expenses for obtaining employment for the artist, and the artist fails to procure the employment, or the artist is not paid for the employment, the agency must repay, within 48 hours after a demand, any such fee or expenses to the artist. If such payment is not made, the agency must pay the artist an additional sum equal to the amount of the fee.

The provision also bars talent agencies from referring artists to persons, firms or corporations in which the agency has a financial interest, for services including, but not limited to, photography, audition tapes, demonstration reels, business or personal management, coaching, dramatic school, and casting or talent brochures. Talent agencies may not accept a referral fee or similar compensation from any person, firm, or corporation providing the above-noted services to an artist under contract to the talent agency.

California Assembly Bill 1901, 1993 CA A.B. 1901 (1994) [ELR 16:6:33]

New York and California criminalize unauthorized recording of films in movie theaters

New York has amended Section 218 of the state's General Business Law to encompass the unauthorized operation of recording devices in movie theaters. Thus, according to news reports, theater operators who act reasonably to detain patrons suspected of unlawfully using such recording equipment may be entitled to immunity in actions alleging false arrest, unlawful detention, defamation, or invasion of civil rights.

The state also amended the Penal Law by adding section 275.32, which provides that "a person is guilty of unauthorized operation of a recording device in a motion picture theater when without written authority or permission from the operator of a motion picture theater, the person operates a recording device in such theater. As used in this section, 'recording device' means a photographic or video camera, or any audio video recorder used for recording the sound or picture of a motion picture, and 'motion picture theater' means a theater or other auditorium in which a motion picture is exhibited."

The statute became effective in November 1994.

California has amended Section 490.5 of the state's Penal Code which makes theft from a merchant or library a crime and allows a merchant or library employee to detain a person for a reasonable time in order to search for and seize suspected stolen items. The amendment, effective January 1, 1995, expands the definition of the crime to permit a theater owner to "detain a person for a reasonable time for the purpose of conducting an investigation in a reasonable manner whenever the theater owner has probable cause to believe the person to be detained is attempting to operate a video recording device within the premises of a motion picture theater without the authority of the owner of the theater."

A theater owner may refuse admission to a person who declines to surrender possession of a video recording device that the person has attempted to bring into the theater. And a theater owner may claim immunity in a civil action resulting from any detention or arrest if the theater owner had probable cause to believe that an individual was attempting to operate an unauthorized video recording device.

New York Senate Bill 7495, 1993 NY S.B. 7495(1994); California AB 160, 1994 Cal ALS 34X, 194 Cal AB 160X, Stats 1994 ch 34X (1994) [ELR 16:6:34]

Corporation employing film director is not "qualified personal service corporation" under Internal Revenue Code

In a Technical Advice Memorandum, the Internal Revenue Service considered a situation involving an unidentified taxpayer corporation that employed the services of a film director who was required to provide services exclusively to the corporation. The corporation entered contracts to provide the director's services to other parties.

Under section 448(d)(2) of the Internal Revenue Code, a "qualified personal service corporation" requires that substantially all of the activities of the corporation must involve the performance of services in certain specified fields, including performing arts. A tax regulation provides that the performance of services in the field of performing arts means the provision of services by actors, singers, musicians, entertainers, and similar artists. Only persons who perform for an audience will be considered to perform services in the field of the performing arts, stated the memorandum. Although a director may contribute "artistic skills" to the production of a film, the activities of a director relate to the performance of services by actors, and do not involve performing before an audience. Such related activities do not satisfy the "function" test of the Code.

The Internal Revenue Service concluded that the corporate taxpayer was not involved in the performance of services in the field of the performing arts within the meaning of section 448(d)(2)(A). The memorandum, pursuant to the Internal Revenue Code, may not be used or cited as precedent.

Internal Revenue Service National Office Technical Advice Memorandum, Private Ruling 9416006, 1994 PRL LEXIS 62 (1994) [ELR 16:6:34]

IN THE NEWS

Arbitrator bars residual commission payments by SAG members

According to news reports, an arbitrator has ruled that the Screen Actors Guild's regulations do not permit agents to collect residual commissions on SAG members' over-scale performances for supplemental markets. Such markets include theatrical films sold to broadcast television, basic cable, pay television and home video, and television films sold to pay television, basic cable, inflight use and home video. [Nov. 1994][ELR 16:6:35]

Computer game developers announce voluntary rating system

The Recreational Software Advisory Council has adopted a voluntary computer game rating system. The council system, according to news reports, rates games on a scale of one to four, with four being most extreme, in the categories of violence, language and sex/nudity. The ratings apparently will be based on information supplied by game developers in response to a council survey form.

The Interactive Digital Software Association, a video game trade organization, already has implemented its own, age-based ratings system. [Nov. 1994] [ELR 16:6:35]

Walt Disney Co. and Philadelphia Symphony Orchestra settle dispute over "Fantasia"

According to news reports, the Philadelphia Symphony Orchestra and Walt Disney Co. have settled a dispute (see ELR 15:3:7) concerning the orchestra's claim to a share of the profits from sales of videocassette and laser disc versions of "Fantasia."

The terms of the settlement were not disclosed. [Nov. 1994] [ELR 16:6:35]

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[ELR 16:6:36]