RECENT CASES

Supreme Court declines to hear appeal by music publisher Bourne Co. from lower court ruling that synchronization agreements for use of music in motion pictures gave Disney the right to sell homevideos of Snow White and Pinocchio

Maybe the Supreme Court thought it was just a "Mickey Mouse case" and thus unworthy of its time and attention (even though the case involves Snow White and Pinocchio, and not Mickey at all). If so, the high court was wrong, because on its surface at least, the case highlights an apparent split among the Circuit Courts of Appeal on an issue of enormous practical significance. That issue — broadly stated — is whether a license to use music or other works in "motion pictures" includes the right to distribute those motion pictures as videocassettes or in other new media versions. Despite the importance of this issue to the entire entertainment industry, the Supreme Court has denied a petition for certiorari filed by music publisher Bourne Co. in a case against the Walt Disney Company and Buena Vista Home Video.

Bourne's case was triggered by Buena Vista's distribution of videocassettes of the classic Disney movies "Snow White" and "Pinocchio," the soundtracks for which contain songs whose copyrights are owned by Bourne. The songs were written in the 1930s by composers employed by Disney. But in those years, Disney didn't have the means to exploit music, so it assigned the songs' copyrights to Bourne's predecessor, reserving for itself the right to use the songs in "motion pictures." A half-century later, when Disney decided to release the two movies as homevideos, Disney concluded that the videos were simply "motion pictures" in a videocassette format and thus no further licenses from Bourne were necessary. Bourne on the other hand took the position that videocassettes are not "motion pictures," and for that reason — and especially because videocassettes were unknown in the '30s when the agreements were entered into — Disney could not release homevideos without new licenses.

At the outset of the case, Bourne sought and was granted a preliminary injunction. But that injunction was reversed by the Second Circuit Court of Appeals, in a decision that did not focus on the license interpretation question that gave rise to the dispute in the first place. Instead, the Court of Appeals set aside the preliminary injunction on the grounds that Bourne had failed to establish that it would suffer irreparable harm if Disney continued selling homevideos while the case was pending. (*ELR* 14:9:3)

Thereafter, the case went to trial before a jury which reached a verdict in favor of Disney on the homevideo issue. (The jury reached a verdict in favor of Bourne on a separate issue involving Disney's unlicensed use of the songs in television advertising. The parties thereafter stipulated to $420,000 in damages on that issue, so Bourne did not come out of this case entirely empty-handed.) On the homevideo issue, the jury's verdict meant that it construed the license for use of the songs in "motion pictures" to include the right to make and distribute videocassettes of "Snow White" and "Pinocchio."

Bourne appealed to the Second Circuit, contending that this question should not have been submitted to the jury at all, because the trial judge should have ruled as a matter of law that the license did not authorize homevideo sales. The Second Circuit has decided otherwise, however. It has held that the issue was properly submitted to the jury, and that the evidence produced at trial supported the jury's verdict that "motion pictures" include videocassettes — at least under the circumstances that existed in this case.

Bourne relied on three cases which have held that a grant of *television* rights does not include homevideo rights: *Rey v. Lafferty*, decided by the 1st Circuit Court of Appeals (*ELR* 15:7:4); *Cohen v. Paramount Pictures*, a 9th Circuit decision (*ELR* 9:12:3, 10:6:10); and *Tele-Pac, Inc. v. Grainger*, decided by the New York state Appellate Division (*ELR* 13:4:10). While television broadcasts are closer to homevideo displays than theatrical motion picture exhibitions are to homevideo displays, the Second Circuit concluded that the cases cited by Bourne "did not address the precise issue presented here," because this case involved licenses for "motion pictures" rather than for "television." Instead, in a decision by Judge Roger Miner, the appellate court looked to the broad definitions of the term "motion pictures" found in the Copyright Act and in a Senate Report — which definitions clearly include videotapes. On the basis of these broad definitions of "motion pictures," the court said that it agreed with *Bloom v. Hearst Entertainment*, a 5th Circuit Court of Appeals decision which held that a grant of motion picture rights is broad enough to include videocassette distribution (*ELR* 16:8:5).

Bourne also argued that the specific right granted by the licenses in question — the right to "record" music in the movies' soundtracks — did not include the right to distribute the videos manufactured pursuant to that right, because the right to *record* a work and the right to *distribute* recordings are two separate and distinct rights, and Disney acquired only one. In response, Disney claimed the benefit of the first sale doctrine, arguing that this doctrine limited Bourne's distribution right in a manner that permitted Disney to distribute its videos. The appellate court agreed with Disney. It explained that "the party claiming the benefit of the first sale doctrine, Disney, was licensed by Bourne to exploit the copyrighted compositions in connection with its motion pictures. Having so licensed Disney, we do not see any good reason why Disney should not be able to dispose of these lawfully made copies as it wishes."

Editor s note: By denying Bourne's petition for cert, the Supreme Court denied the entertainment industry — and the lower courts — the benefit of a ruling on a question that has plagued countless lawyers and judges and will continue to arise in the near future in connection with the reuse of material from movies in CD-ROMs, DVDs and online computer services. See, e.g., *Old Content in New Bottles: Interpreting Pre-Existing Agreements in the Online World* by Mark F. Radcliffe (*ELR* 17:8:3). Given the apparent split between the 1st and 9th Circuits on the one hand, and the 2nd and 5th Circuits on the other, there ought to be some explanation for why the Supreme Court declined to hear the case. Since the Supreme Court itself does not explain why it denies cert petitions, the industry is left to speculate about the Court's reasons. Perhaps it did so because one aspect of this case was factually unique: the songs in question were originally written as works for hire whose copyrights were owned by Disney in the first place. The assignment of those copyrights to Bourne's predecessor was made so those songs could be exploited in ways that differed from Disney's own use of them in its movies; and Disney reserved the right to use them itself, without having to pay royalties to its assignee. Under these circumstances, it made sense to give Disney the benefit of any ambiguity concerning the manner in which it could exploit its own movies. But the Supreme Court may have thought that this was not a good case to deal with an issue that usually arises in cases where licensees have not created or ever owned the copyrights to the works for which movie or television rights were obtained. In other words, the Supreme Court may have viewed the apparent split among the circuits as simply the result of a shift in the burden of proof and persuasion, rather than the result of a split on legal doctrine. Indeed, one of the specific sub-issues in the case was whether Bourne had the burden of proving that Disney's use was not authorized, or whether Disney had the burden of proving that it was. The appellate court held that when the existence of a license is disputed, the burden is on the defendant to prove that a license does exist. But where, as here, the dispute concerns the scope of a license, rather than its existence, the burden is on the plaintiff to prove that the defendant's use was not authorized by the license. Thus, the court ruled that the burden was properly placed on Bourne to prove

Disney's use was not authorized. Disney's reliance on the first sale doctrine in this case is puzzling. That doctrine usually applies only when there is a transfer of possession of lawfully-made tangible copies. In this case, Bourne's predecessor did not transfer tangible copies of the songs in question. The appellate court's ultimate rejection of Bourne's argument (that a separate distribution license was needed) seems correct. But the more logical basis for that result would have been the doctrine of "implied license." That is, when Disney obtained a license to reproduce songs in the soundtracks of its movies, Bourne's predecessor impliedly licensed Disney to distribute copies of those movies. Otherwise, Disney would have received a license to make videocassettes but would have been unable to sell them; and, as the court itself observed, "This would make little sense."

Bourne v. Walt Disney Co., 68 F.3d 621, 1995 U.S.App.LEXIS 29708 (2d Cir. 1995), cert. denied, 64 U.S.L.W. 3807, 1996 U.S.LEXIS 3715 (1996) [ELR 18:1:3]

Florida appellate court reinstates suit against Major League Baseball brought by group seeking franchise for Tampa Bay team; trial court s dismissal of tortious interference and state antitrust claims is reversed

The last few years have been turbulent times for Major League Baseball. The "nation's pastime" has been under legal assault not only by its players (*ELR* 17:3:14) but also by those who would like to bring major league teams to their cities. Tampa Bay in particular has been hoping for a team of its own, and litigation brought by disappointed suitors has whittled away at baseball's cherished antitrust exemption — even if it hasn't yet resulted in a franchise for that city on the Gulf Coast of Florida.

The most recent of these cases was brought by Frank Morsani and Tampa Bay Baseball Group, a corporation that agreed to buy the Minnesota Twins in 1984 and the Texas Rangers in 1988. According to Morsani, other owners of Major League teams interfered with those agreements and falsely promised him that they would grant his Group an expansion franchise in time for the 1993 season. As a result, Morsani and his Group filed an action in Florida state court for tortious interference with contract and violation of Florida state antitrust law. The suit was dismissed by the trial court on the grounds that the facts alleged by Morsani did not state a claim for tortious interference and on the grounds that Major League Baseball is exempt from state (as well as federal) antitrust law.

Now, however, the Florida Court of Appeal has reversed. In a decision by Chief Judge Ryder, that court has held that although Florida law recognizes a "qualified privilege" to interfere with business relationships, that "privilege carries with it the obligation to employ means that are not improper." In this case, the court held, Morsani alleged that Major League Baseball and its team owners had used means that were not proper, because even though they have the right to approve team sales and relocations and league expansions, they allegedly "exceeded the scope of their approval rights" in their decisions concerning Morsani's efforts to get a team for Tampa Bay. The appellate court also ruled that Major League Baseball's historic exemption from the antitrust laws applies only to the reserve clause in its player contracts — not to team sales and relocations or league expansions. As a result, the case has been remanded to the trial court for further proceedings.

Editor s note: At one time in the history of baseball law, the antitrust exemption quite clearly applied to more than the reserve clause. Indeed, the exemption was first created by the United States Supreme Court back in 1922 in a case brought by the owners of teams from a league that had just gone out of busines who were denied admission to the major leagues. *Federal Baseball v. National League*, 259 U.S. 200 (1922). Subsequent Supreme Court decisions concerning baseball's antitrust exemption did involve the reserve clause. *Toolson v. New York Yankees*, 346 U.S. 356 (1953); *Flood v. Kuhn*, 407 U.S. 259 (1972). But cases in other courts recognized that baseball was exempt from antitrust law even in contexts unrelated to the reserve clause. Indeed, in a case triggered by the relocation of the Braves from Milwaukee to Atlanta, the Wisconsin Supreme Court addressed precisely the issue raised in Morsani's suit, and the Wisconsin court held that baseball is exempt from antitrust law — state as well as federal. *Wisconsin v. Milwaukee Braves*, 144 N.W.2d 1 (Wisc. 1966), cert. denied, 385 U.S. 990 (1966). However, as a result of Tampa Bay's efforts to get a team, two more recent decisions have held that baseball's exemption applies only to the reserve clause and does not stretch to state antitrust law. *Piazza v. Major League Baseball* (*ELR* 15:12:26); *Butterworth v. Major League Baseball* (*ELR* 16:9:8). The Florida appellate court relied on these two recent cases to reach its decision that Major League Baseball is not exempt from the antitrust claims made by Morsani in this case. Because the exemption was created by the United States Supreme Court in a case that did not involve the reserve clause, it certainly seems that *Piazza*, *Butterworth* and now *Morsani* are in error on the exemption issue. On the other hand, in a common law jurisdiction like the United States, when the same "error" is made often enough, it sometimes becomes viewed as a "change" in the law. And that may be what has happened to baseball's antitrust exemption — all as a result of Tampa Bay's quest for a Major League team of its own.

Morsani v. Major League Baseball, 663 So.2d 653, 1995 Fla.App.LEXIS 10391 (Fla.App. 1995) [ELR 18:1:4]

Amtrak did not violate First Amendment rights of artist Michael Lebron when it refused to permit him to display a political photomontage on Penn Station s Spectacular billboard, because Amtrak s refusal to permit political displays on the Spectacular is

Appeals rules; Supreme Court denies cert

After being sidetracked on an issue that had little to do with the substance of Michael Lebron's complaint, the artist's First Amendment case against Amtrak has reached the end of the line, at least in federal courts. Lebron has lost; Amtrak has won. In a decision by Judge Daniel Mahoney, the Second Circuit Court of Appeals has ruled that Amtrak did not violate Lebron's First Amendment rights when it refused to permit him to display a political photomontage on the huge, back-lit display space that dominates the west wall of the rotunda on the upper level of Penn Station — a display that is called, appropriately enough, the "Spectacular."

The appellate court's decision reverses a contrary ruling made by Judge Pierre Leval in 1993, when Judge Leval was still a District Court judge. (He has since been elevated to the very Circuit Court that has now reversed his 1993 ruling.) Circuit Judge Jon O. Newman dissented from the appellate court's decision, so the four federal judges who have considered the case on its merits were evenly split on whether Lebron's rights were violated by Amtrak. Amtrak prevailed only because the two judges who sided with it were appellate court judges, while one of the two who sided with Lebron was a District Court judge at the time he rendered his decision. Nevertheless, the Supreme Court has denied Lebron's petition for certiorari, bringing the case to an end insofar as federal courts are concerned. (Even Judge Mahoney made a point of noting, in his decision for the Second Circuit, that "Lebron is free to pursue his state law claim in state court.")

Lebron's relationship with Amtrak began when he leased the Spectacular for January and February of 1993. The terms of the written lease agreement provided that the content of the display had to be approved by Amtrak, and if Amtrak found the proposed display "objectionable for any reason," it could terminate the lease. For the entire 26 years of the Spectacular's existence, Amtrak has permitted it to be used only for commercial advertisements; Amtrak has an unwritten policy against permitting the Spectacular to be used for political advertising, and Amtrak has never made exceptions to that policy. When Amtrak refused to permit Lebron to display his political photomontage on the Spectacular, he sued in federal District Court. And, as noted, Judge Leval ruled that Amtrak had violated Lebron's First Amendment rights and granted a mandatory injunction against Amtrak that would have required it to permit Lebron to display his montage. (*ELR* 15:1:2)

Amtrak immediately appealed, and the Second Circuit quickly reversed on the grounds that Amtrak was not a governmental agency, and thus its actions were not controlled by the First Amendment. (*ELR* 16:3:19) Thus, the first time the Second Circuit ruled on the case, it did not have to — and did not — decide whether Lebron's Free Speech rights would have been violated, if a government agency had done what Amtrak did. Lebron took the case to the Supreme Court on the narrow issue of whether Amtrak is a governmental agency, subject to the First Amendment; and the Supreme Court agreed with him that it is. (*ELR* 16:10:16) In so ruling, the Supreme Court specifically stated that it was "express[ing] no opinion as to whether Amtrak's refusal to display Lebron's advertisement violated that Amendment." That issue was remanded to the Second Circuit for its consideration.

The Second Circuit has now decided that Amtrak's refusal to display Lebron's work did not violate the First Amendment. The court's majority reasoned that since Amtrak has never leased the Spectacular for anything but commercial advertising, "the Spectacular is not a public forum; most likely, it is a non-public forum, or perhaps it is a limited public forum opened for purely commercial speech." Since the Spectacular is not a public forum, Amtrak's policy of excluding noncommercial advertisements is permissible if it is "viewpoint-neutral and reasonable." The majority found it to be reasonable, because "Amtrak's position as a government controlled and financed public facility, used daily by thousands of people, made it highly advisable to avoid the criticism and the embarrassments of allowing any display seeming to favor any political view. This was particularly so with respect to the Spectacular in view of its uniqueness and size." The majority also found the policy to be viewpoint neutral.

Lebron took the case to the Supreme Court a second time, hoping it would review the First Amendment merits of his claim. But the Supreme Court has denied Lebron's petition.

Lebron v. National Railroad Passenger Corp., 69 F.3d 650, 1995 U.S.App.LEXIS 31016 (2d Cir. 1995), cert. denied, 64 U.S.L.W. 3045, 1996 U.S.LEXIS 3045 (1996) [ELR 18:1:5]

Federal court rules that master recordings by The Judds are owned by a joint venture between MCA Records and Mike Curb (rather than by Curb alone), and that MCA is entitled to a trial on its claim that Curb infringed copyrights to masters by Bing Crosby (and others) when he sub-licensed record companies outside the U.S. in alleged violation of an agreement requiring him to obtain permission before doing so

A federal District Court in Nashville has issued a decision that makes two distinct rulings in a lawsuit between Mike Curb and MCA Records that arose from "a joint venture between the parties gone sour."

At issue in one ruling is the ownership of the masters to recordings made during the 1980s by Naomi and Wynonna Judd, performing as "The Judds." Curb contended that he owns the masters alone; MCA contended that they are owned by a joint venture between Curb and MCA created in 1983.

At issue in the other ruling are sub-licenses issued by Curb to record companies in Japan, Australia, Hong Kong, Singapore, Malaysia, Taiwan, Thailand, the Philippines and South Korea, authorizing them to manufacture and sell recordings by Bing Crosby, Gladys Knight, Debbie Reynolds and Conway Twitty. Curb contended that he had the contractual right to issue those licenses, but that even if he didn't, the court did not have subject matter jurisdiction to hear MCA's claim; MCA contended Curb did not have the right to do so, and the court does have jurisdiction to hear its infringement claim.

The dispute concerning ownership of the The Judds masters arose because Capitol Records once had an interest in those masters, and that interest reverted to Curb when it expired in February 1996. In settlement of an earlier, unrelated dispute, MCA and Curb entered into an agreement that provides that their joint venture would become the owner of The Judds masters if and when Capitol's rights ended, as they eventually did. In pleadings and oral courtroom arguments, Curb had agreed that the agreement had that meaning; but later, Curb contended that it meant something else, and therefore he alone owned the masters. Apparently, Judge Thomas Wiseman was perturbed by Curb's vacillation.

"At best," the judge said, "this was poor foresight. At worst, it amounts to misrepresentation." Moreover, Curb's statement that the agreement meant what MCA said it meant resulted in a ruling that the joint venture owns the masters, not Curb alone, because, "At law, it is a binding judicial admission, sufficient to merit summary judgment in behalf of MCA."

The dispute concerning the foreign sub-licenses arose out of an agreement by which MCA granted Curb the right to release certain recordings in the United States, United Kingdom and Canada, but not elsewhere unless he obtained permission from Warner/Elektra/Asylum which was MCA's worldwide licensee at the time. In 1991, Curb asked WEA for permission, but was told that its rights were about to expire so that "any approval it might give would be irrelevant." Apparently, Curb construed this to mean that he didn't have to obtain permission from anyone. But according to MCA, this simply meant that Curb had to obtain permission from its new worldwide licensee, BMG. Since, Curb didn't get BMG's permission, MCA sued him for copyright infringement, as a result of the foreign sub-licenses he granted.

In response to MCA's suit, Curb sought summary judgment on the grounds that even if his sub-licenses had resulted in infringements, those infringements took place outside the United States and therefore the court did not have subject matter jurisdiction to rule on them. Curb relied on *Subafilms, Ltd. v. MGM-Pathe* (*ELR* 16:5:10) for this proposition — a Ninth Circuit decision which in fact so holds.

Judge Wiseman didn't follow *Subafilms*, however, for two reasons. First, he distinguished it. In that case, Subafilms had *not* proved that MGM's foreign licensees had used masters manufactured by MGM *in the United States*; the only thing MGM did in the United

States was to *authorize* licensees to exhibit the Beatles movie "Yellow Submarine" (the work at issue in that case) in the licensees' own countries. In Curb/MCA case, by contrast, it appeared that Curb had manufactured masters in the United States which were shipped abroad and then used by his foreign sub-licensees to manufacture recordings for sale in their countries. According to Judge Wiseman, this meant that Curb committed a "primary" copyright infringement in the United States — thus giving the court subject matter jurisdiction. The judge rejected Curb's argument that he had not infringed in the U.S., because he was licensed to make reproductions in this country. "While this argument sounds fine at first blush," Judge Wiseman said, "it is undercut by its own faulty premise: Why would any copyright holder authorize reproduction for the domestic market when such a transfer could lead to unsanctionable reproduction for wholesale distribution in foreign markets?"

Judge Wiseman also rejected *Subafilms* on the grounds that it was incorrectly decided. Instead, Judge Wiseman followed what he said was the "better view" of the law. The "better view," according to Judge Wiseman, is that improperly authorizing others to make reproductions in other countries is an infringement under U.S. copyright law, if the act of authorization takes place in the U.S.

Editor s note: The portion of Judge Wiseman's decision that deals with ownership of masters to recordings by The Judds is of little interest to others in the music industry, because the result is so fact-specific — turning, as it did, on specific legal positions taken by Curb during early stages of the litigation and to a lesser extent on the language of an agreement between Curb and MCA. On the other hand, there should be widespread interest in the portion of the decision that deals with whether U.S. federal courts have subject matter jurisdiction over copyright infringement cases based on reproductions made in other countries, where an allegedly improper authorization is the only act committed in the U.S. Judge Wiseman's rejection of the *Subafilms* case creates a conflict among the circuits. (See, *Pursuing the Home Court Advantage in International Copyright Litigation* by Lionel S. Sobel (*ELR* 17:4:3)) Judge Wiseman was able to reject *Subafilms* — even though he is a *District* Court judge while *Subafilms* is a *Circuit* Court decision — because *Subafilms* was decided in the *Ninth* Circuit while Nashville is in the *Sixth* Circuit, and thus *Subafilms* was not binding on him. Ironically, the cases cited by Judge Wiseman as illustrations of the "better view" of the law are two decisions by *District* Courts in the Ninth Circuit — decisions which were effectively overruled by *Subafilms* itself!

Curb v. MCA Records, Inc., 898 F.Supp. 586, 1995 U.S.Dist.LEXIS 15083 (M.D.Tenn. 1995) [ELR 18:1:6]

Musicians may take tax deductions for depreciation of musical instruments, even though instruments do not have determinable useful lives and may have increased in actual value, federal appellate courts rule in two cases

Concert violinists have won two similar but separate cases involving a narrow but important issue in federal income taxation. The issue is whether musicians are entitled to claim tax deductions for the depreciation of their instruments, even though the instruments have no "determinable useful lives" and may have increased in actual value. Federal appellate courts in both the Second and Third Circuits have answered this question by holding that the violinists properly claimed depreciation deductions, in one case for a bass violin that increased in value from $28,000 to $65,000, and in the other case for two violin bows that had increased in value from $30,000 to $45,000 and from $21,500 to $35,000 respectively. The Internal Revenue Service had taken the position that none of these instruments could be depreciated for tax purposes; but the Tax Court agreed with the violinists in both cases, and the Circuit Courts have agreed and affirmed in both as well.

The reason the dispute arose between the Commissioner of the IRS and the violinists is this. Before 1981, depreciation was permitted by section 167 of the Internal Revenue Code; and that section was interpreted to permit depreciation only for business assets that had a determinable useful life. In these cases, the bass violin was made in the 17th Century and the violin bows were made in the 19th century; and the IRS took the position that they did not have useful lives because their age showed they were useful forever. However, in 1981, Congress passed the Economic Recovery Tax Act which, among other things, added a new depreciation section to the Internal Revenue Code — section 168. Congress added the new section 168 because it believed that "prior depreciation rules and regulations did not provide the investment stimulus necessary for economic expansion," and because "Congress felt that prior depreciation rules governing the determination of useful lives were much too complex and caused unproductive disagreements between taxpayers and the Commissioner." Thus, section 168 "de-emphasizes the concept of useful life."

The only thing taxpayers have to show to take advantage of section 168 — which permits depreciation under the Accelerated Cost Recovery System — is that the business property being depreciated is subject to exhaustion, wear and tear. In the Second Circuit case, Richard and Fiona Simon, violinists with the New York Philharmonic, showed that their bows — which had been made by Francois Tourte — had physically deteriorated since they bought them as a result of their use in performances. In the Third Circuit case, violinist Brian Liddle, of the Philadelphia Orchestra, showed that his bass violin — which had been made by Francesco Ruggeri — had become so warn and damaged as a result of his use of it in performances that he had to replace it altogether.

Both the *Simon* and *Liddle* decisions distinguish *Browning v. Commissioner* (*ELR* 11:10:14), a case decided by the 9th Circuit Court of Appeals in 1989, on the grounds that *Browning* was decided only under section 167 of the Internal Revenue Code (which does require proof of a useful life) and not under section 168 (which does not require such proof).

Editor s note: According to a recent news report (WALL STREET JOURNAL, 5/22/96), the IRS has not appealed these two decisions to the Supreme Court, but "is still reviewing" what it will do about other similar cases. There has been some speculation that the IRS may litigate the issue again in another circuit, hoping for a contrary ruling that would create a conflict among the circuits that could then be taken to the Supreme Court. Those who think so believe the IRS may be concerned that these decisions will be relied on by others who want to depreciate antique office furniture and artworks. If so, the IRS's concerns seem misplaced. These decisions do not open the floodgates to unlimited depreciation of business property. In the *Simon* decision, for example, Judge Ralph Winter made a point of noting that section 168 does not make all business property eligible for depreciation deductions. "Even without a determinable useful life requirement," the judge said, "a business that displayed antique automobiles, for example, and kept them under near-ideal, humidity-controlled conditions, would still have difficulty demonstrating the requisite exhaustion, wear and tear, or obsolescence necessary to depreciate the automobiles. . . . Nor is valuable artwork purchased as office ornamentation apt to suffer anything more damaging than occasional criticism . . . and it too would probably fail to qualify as [depreciable] property. Indeed, even a noted artwork that serves as a day-to-day model for another artist's work cannot be depreciated . . . if it does not face exhaustion, wear and tear, or obsolescence in the pertinent business."

Liddle v. Commissioner of Internal Revenue, 65 F.3d 329, 1995 U.S.App.LEXIS 25270 (3d Cir. 1995); *Simon v. Commissioner of Internal Revenue*, 68 F.3d 41, 1995 U.S.App.LEXIS 28823 (2d Cir. 1995) [ELR 18:1:8]

Registration of copyright to a collection of songs protects copyright to each individual song in the collection, even if titles of individual songs were not listed on registration certificate, federal appellate court rules

Songwriter Scott Szabo is entitled to go to trial on his claim that the copyright to his song "Man v. Man" was infringed by a recording entitled "Man" made by performer King Errisson and released by Ichiban Records. This is so, a federal appellate court has ruled, even though Szabo registered his copyright in "Man v. Man" only as part of a collection of songs entitled "Scott Szabo's Songs of 1991," not individually, and even though the title "Man v. Man" was not listed on the registration certificate.

Errisson and Ichiban had contended that Szabo could not pursue his infringement claim, because his registration had not specifically identified the particular song at issue in his suit. A federal District Court agreed, and granted Errisson's and Ichiban's motion for summary judgment. On appeal, however, the Fifth Circuit Court of Appeals reversed, in a decision by Judge Emilio Garza.

While this issue had not previously arisen in the Fifth Circuit, it has been addressed elsewhere. In *Sylvestre v. Oswald* (*ELR* 15:12:22), the Southern District of New York ruled that the registration of a collection of songs entitled "Cherry Bomb" protected the copyright to one song within that collection entitled "Heaven," and that the owner of the copyright to that one song could pursue an infringement claim concerning it. Likewise, in *Heyman v. Salle* (*ELR* 12:8:6), the Southern District of New York held that the registration of a copyright to a book of photographs protected the copyright to each individual photograph in it, and thus an action alleging the infringement of the copyright to a single photograph could proceed. (The Third Circuit issued a similar ruling in another case involving Scholastic Aptitude Tests.)

Judge Garza concluded that the results in these other cases were perfectly consistent with the language of the Copyright Act and Copyright Regulations, as well as a Circular issued by the Copyright Office. And thus in this decision, the Fifth Circuit also ruled that suit could be brought for the alleged infringement of the copyright to a single song, even though that song had been registered only as part of a collection.

Editor s note: The Copyright Act and Copyright Regulations permit this result only where all of the works constituting the collection are authored by the same person. If a collection consists of works authored by more than a single person, the copyright to an individual work within the collection would have to be separately registered in order for the owner of the copyright to that work to bring an action for its infringement.

Szabo v. Errisson, 68 F.3d 940, 1995 U.S.App.LEXIS 31589 (5th Cir. 1995) [ELR 18:1:9]

Preliminary injunctions denied in copyright and trade secret cases brought against Internet providers and Washington Post by licensee of Scientology literary works written by L. Ron Hubbard; courts rule that defendants are likely to prevail on fair use grounds and because literary works at issue are not secret

Federal courts from coast to coast are now wrestling with a series of related cases that someday may require judges to balance First Amendment religious beliefs against First Amendment free speech rights. Right now, however, these cases are being fought on narrower grounds involving allegations of copyright infringement and trade secret misappropriation. The cases in question have been brought by the Religious Technology Center, a California-based non-profit corporation that is the exclusive licensee of the copyrights to writings by L. Ron Hubbard, the founder of the Church of Scientology. Among these writings are unpublished literary works, to which the Church permits access only by members who have attained "the proper level of spiritual enlightenment and made the requisite financial contributions."

The documents which are the subject of these cases were obtained by former Church members, and some of the documents have been posted to sites on the Internet. In addition, some of these documents were made part of the record in a federal court lawsuit in California, where they were publicly available in the clerk's office for a significant period of time before being sealed by court order. In connection with a news article about the California case, the *Washington Post* copied the documents from the public court file and then selectively quoted from them for the article itself. The Internet posting and the *Post* article triggered two additional lawsuits by the Religious Technology Center, one in federal court in Virginia and the other in federal court in Colorado. The Virginia case is against the *Post*, a former Scientology member, and his Internet service provider; the Colorado case is against an Internet database publisher.

In both cases, the Religious Technology Center sought preliminary injunctions, and in both they have been denied. In separately-analyzed but similar opinions, Judge Leonie Brinkema (of the Eastern District of Virginia) and Judge John Kane (of the District of Colorado) each concluded that the defendants are likely to prevail on fair use grounds, and thus the Center's copyright infringement claims are unlikely to be successful, and that the literary works in question are not "secret" and thus the Center's trade secret claims are unlikely to be successful as well.

Editor s note: These cases are being closely watched by those who have little interest in the Church of Scientology in particular, or even in the copyright status of religious writings generally, because these cases appear at first to deal with the cutting-edge issue of copyright protection on the Internet. This issue has generated countless law review articles but only a few published decisions. See, *Playboy Enterprises, Inc. v. Frena*, 839 F.Supp. 1552 (M.D.Fla. 1993) (*ELR* 16:4:10); *Sega Enterprises Ltd. v. MAPHIA*, 857 F.Supp. 679 (N.D.Cal. 1994) (*ELR* 16:7:20); *United States v. LaMacchia*, 871 F.Supp. 535 (D.Mass. 1994) (*ELR* 16:12:17). It seems possible, however, that these cases will not become landmarks in the development of Internet copyright doctrine, because of the nature of the literary works in question, the relatively small portion of them that has been posted to the Internet, and the reasons the works were posted to the Internet and quoted in the *Washington Post* in the first place. In the Colorado case, Judge Kane noted that "The evidence showed the Works are esoteric in nature and are delivered to certain followers by advanced Scientologists known as 'auditors' as part of an elaborate system of instruction. The only financial harm RTC [the Religious Technology Center] would suffer would be if followers were to forsake the Church's didactic methodology in favor of self instruction through the Works copied by Defendants. There was no suggestion, let alone evidence, of this potential for financial loss to the Church." In addition, excerpts from the works were posted to the Internet as part of a "debate" about the Church of Scientology rather than for commercial purposes. And they were quoted in the *Post* in an article about a federal lawsuit involving the Church and one of its former members. In other words, as a matter of copyright law, the outcome of these cases may turn on their very particular facts — facts which have little to do with the Internet. On the other hand, if these cases do eventually present larger issues of broad significance, those issues may well have to do with the apparent clash between two First Amendment rights — the freedom of religion and the freedom of speech. The religious freedom issue was raised by the Center, but was summarily rejected by

Judge Kane, in a proceeding that followed the denial of the Center's request for a preliminary injunction in the Colorado case, as a result of Judge Kane's order that the Center return to the defendants material that had been previously seized from them.

Religious Technology Center v. Lerma, 897 F.Supp. 260, 1995 U.S.Dist.LEXIS 16799 (E.D.Va. 1995); *Religious Technology Center v. F.A.C.T.NET, Inc.*, 901 F.Supp. 1519, 1528, 1995 U.S.Dist.LEXIS 13892 , 14838 (D.Colo. 1995) [ELR 18:1:9]

Constitutionality of federal statute prohibiting radio and TV advertising for casino gambling is upheld by federal appellate court, in case brought by New Orleans broadcasters; contrary ruling by federal trial court in Nevada is disregarded

At least 21 states have legalized gambling, so even though gambling is considered a "vice" by some, it is tolerated and even actively promoted in much of the country. By federal law, however, one form of gambling — casino gambling — may not be promoted by radio or television advertising anywhere in the country. The Constitutionality of this statute was challenged in federal court by a group of New Orleans area radio and television broadcasters and their trade association. Their contention: that the statute violates their First Amendment right to engage in commercial free speech — even though commercial speech is entitled to a more limited form of constitutional protection than political or artistic speech.

The District Court disagreed with the broadcasters and entered summary judgment in favor of the government. Now, the Fifth Circuit Court of Appeals has affirmed. In a decision by Judge Edith Jones, the appellate court has ruled that the statute is constitutional, because it satisfies the three requirements for the regulation of commercial speech articulated by the Supreme Court in *Ohralik v. Ohio State Bar Ass n*. First, the government has a "substantial" interest in "discouraging public participation in commercial gambling" in order to minimize "the wide variety of social ills that have historically been associated with such activities." Second, the ban on broadcast advertising of casino gambling "directly advances" the government's interest because "It is axiomatic that the purpose and effect of advertising is to increase consumer demand." And third, the advertising ban is "no more extensive than necessary to serve the government's interest."

Editor s note: The appellate court's decision was not unanimous. Judge Henry Politz dissented. Moreover, this very issue was addressed two years earlier by a federal District Court in Nevada, and that court held that the federal statute in question is unconstitutional, for the very reasons urged in this case by the New Orleans broadcasters. *Valley Broadcasting Co. v. United States* (*ELR* 15:12:24). That decision, of course, was not binding on the Fifth Circuit for two reasons: because it arose in a different circuit, and because it was rendered by a lower court. As a result, Judge Jones' decision for the Fifth Circuit treated the Nevada decision with disdain, citing it in a footnote and saying only that "under a proper reading" of the relevant Supreme Court cases, the statute "withstands constitutional scrutiny." Nevertheless, since no appeal appears to have been taken by the government from the Nevada case, there now is a split among the circuits — or at least between the Fifth Circuit and the District of Nevada — and the New Orleans broadcasters have filed a petition for certiorari with the Supreme Court.

Greater New Orleans Broadcasting Ass n v. United States, 69 F.3d 1296, 1995 U.S.App.LEXIS 33420 (5th Cir. 1995)[ELR 18:1:10]

California law requiring specified overtime pay for broadcast industry employees, unless they are covered by a collective bargaining agreement providing for different overtime benefits, is not preempted by federal labor law, appellate court rules in case that arose because of a gap between NBC and NABET collective bargaining agreements

NBC and NABET Local 53 were locked in a "bitter labor dispute" for a year between March 1990, when their existing collective bargaining agreement expired, and February 1991, when a new agreement was entered into. The old collective bargaining agreement specified the amount of overtime pay NABET employees would receive, and the new agreement did as well. But the new agreement's overtime provision was not made retroactive. As a result, during the year-long gap between the two agreements, NBC's NABET-member employees were not covered by a collective bargaining agreement concerning overtime pay.

Local 53 is a California-based chapter of NABET; and the state of California has its own laws concerning overtime pay. For broadcast industry employees, California law requires that they be paid double time for hours worked in excess of 12 per day, unless those employees are covered by a collective bargaining agreement that provides for other overtime benefits. As a result, when NBC and NABET entered into their new collective bargaining agreement in 1991, NBC's NABET-member employees filed claims with the

California Labor Commissioner for the overtime they worked between the expiration of the old collective bargaining agreement and the effective date of the new agreement. The Labor Commissioner agreed that NABET members were entitled to overtime pay for that year.

The California Labor Commissioner has jurisdiction to enforce overtime (and other labor) laws in that state; so the Labor Commissioner's agreement with NABET employees could not be ignored by NBC. The network responded by filing suit in federal District Court, seeking an injunction against the Labor Commissioner and NABET on the grounds that California's overtime law was preempted by federal labor laws promoting the collective bargaining process. The District Court was not persuaded by NBC's argument, and it entered summary judgment in favor of the Labor Commissioner and NABET. The network appealed, but the Ninth Circuit

Court of Appeals has affirmed, in a decision by Judge Mary Schroeder.

Judge Schroeder noted that California's overtime law is similar to minimum benefit laws in other states, the enforceability of which had been upheld in earlier Supreme Court decisions. NBC had relied on other cases in which state laws had intruded into the collective bargaining process, and were held to be preempted because of that intrusion. In this case, however, Judge Schroeder concluded that there had been "no state interference in the collective bargaining process and therefore no violation of federal labor policy calling for preemption."

National Broadcasting Co. v. Bradshaw, 70 F.3d 69, 1995 U.S.App.LEXIS 33664 (9th Cir. 1995) [ELR 18:1:11]

Appellate court affirms dismissal of defamation case that arose from showing a videotape of a Sixty Minutes Australia broadcast about the Australian Mr. Bubbles case at a seminar in California; plaintiff did not have personal jurisdiction over two defendants who appeared on tape, and comments made by third defendant at the seminar were opinion or not made with malice

Most defamation cases have roots in underlying disputes or animosities. Recently, federal courts in California were confronted with a defamation case whose roots reach half-way around the world, all the way to Australia.

Several years ago, an Australian man was prosecuted in Australia on charges he had sexually assaulted his wife's nursery school students in bubble baths. The case was known as the "Mr. Bubbles" case, and the accused was acquitted, quite possibly as a result of expert testimony by a Minnesota psychologist named Ralph Underwager who has testified in more than 250 cases on the unreliability of children's testimony alleging sexual abuse.

In 1990, the program "Sixty Minutes Australia" broadcast a report entitled "Witness for Mr. Bubbles," in which American attorneys and psychologists disputed Underwager's theories and credentials. Among Underwager's critics were James Peters and Charles Vaughn, attorneys then practicing in Virginia and Indiana. The program was broadcast in Australia, not in the United States. But two years later, in 1992, a tape of the program was shown by Kim Oates at a conference in San Diego, California. Oates is a professor at the University of Sydney and chairman of the Division of Medicine of the Children's Hospital. Oates also had been a witness for the prosecution during the "Mr. Bubbles" case.

Oates' showing of the tape in San Diego resulted in Underwager's filing a defamation case in federal District Court in California against Peters, Vaughn and Oates, on account of things said by Peters and Vaughn on the tape and by Oates when he showed the tape at the conference. The District Court dismissed the case as to Peters and Vaughn for lack of personal jurisdiction, and as to Oates on the grounds that his comments during the conference were either non-actionable opinion, or were not made with actual malice. The Ninth Circuit has now affirmed, in a decision by Judge Betty Fletcher.

In an effort to get personal jurisdiction over Peters and Vaughn in California — even though they neither lived nor made their allegedly defamatory comments there — Underwager asserted that they were part of a "conspiracy" that resulted in his being defamed at the conference in San Diego. There is authority for the proposition that courts may have personal jurisdiction over out-of-state conspirators; but that authority did not help Underwager. It did not, because he had not alleged facts showing a conspiracy between Peters and Vaughn on the one hand and Oates on the other; and Peters and Vaughn asserted that they had no knowledge Oates planned to show the tape at the conference. The appellate court concluded that "While the airing of an Australian TV program in Australia is reasonably foreseeable, the re-airing of such a program by a third party at a conference in California two years later is not." For this reason, dismissal of the case as to Peters and Vaughn for lack of personal jurisdiction was affirmed.

Judge Fletcher also ruled that most of the allegedly defamatory statements made by Oates at the conference were statements of opinion, and as such, not actionable. One statement — that Underwager had received a $160,000 "fee" from insurance companies that defend defendants in sexual abuse cases for writing the book *Accusations of Child Sexual Abuse* — could have been a factual assertion. Underwager denied receiving anything other than royalties from the book's publisher. But, said the appellate court, "There is no evidence either that Oates knew the statement about insurance industry fees was false or that he had any serious doubts about the truth of the statement but continued to act, in reckless disregard of the truth." For this reason, the District Court's summary judgment dismissing the case as to Oates was affirmed as well.

Underwager v. Channel 9 Australia, 69 F.3d 361, 1995 U.S.App.LEXIS 30977 (9th Cir. 1995) [ELR 18:1:11]

Dismissal of apple growers product disparagement suit against CBS, arising from 60 Minutes report on effects of Alar pesticide, is affirmed by Court of Appeals

"'A' is for Apple" — and also for Alar, a chemical pesticide once used by apple growers. In 1989, CBS's "60 Minutes" broadcast a report (entitled "'A' is for Apple") on health hazards associated with the use of Alar on fruit. That broadcast triggered a lawsuit by apple growers in the state of Washington who had sprayed Alar on their fruit. The suit was for product disparagement — a tort under Washington state law. Like the tort of defamation which it resembles, product disparagement claims require plaintiffs to prove that the offending statements are false. In this case, the "60 Minutes" broadcast was based largely on a report by the Natural

Resources Defense Council entitled "Intolerable Risk: Pesticides in Our Children's Food."

In response to the apple growers' suit, CBS made a motion for summary judgment, contending that the growers could not prove that the assertions made in the "60 Minutes" broadcast were false. As CBS asserted, the growers were unable to prove the broadcast was false, and CBS's motion was granted. (*ELR* 16:3:10) The growers, however, appealed. They argued that they had presented sufficient evidence to permit them to go to trial on the issue of falsity. And they also argued that even if they could not prove that specific statements made during the broadcast were false, they were entitled to have a jury decide whether the "60 Minutes" report as a whole contained a false "message." Both arguments have failed.

The Ninth Circuit Court of Appeals has affirmed the summary judgment granted to CBS by the trial court.

In a *per curiam* decision, the appellate court ruled that the evidence presented by the growers did not raise a triable issue regarding the falsity of the "60 Minutes" broadcast. The court also ruled that the growers' "attempt to derive a specific, implied message from the broadcast as a whole and to prove the falsity of that overall *message* is unprecedented and inconsistent with Washington law." The court explained that if it "were to accept the growers' argument, plaintiffs bringing suit based on disparaging speech would escape summary judgment merely by arguing, as the growers have, that a jury should be allowed to determine both the overall message of a broadcast and whether that overall message is false. Because a broadcast could be interpreted in numerous, nuanced ways, a great deal of uncertainty would arise as to the message conveyed by the broadcast. Such uncertainty would make it difficult for broadcasters to predict whether their work would subject them to tort liability. Furthermore, such uncertainty raises the specter of a chilling effect on speech."

Auvil v. CBS 60 Minutes , 67 F.3d 816, 1995 U.S.App.LEXIS 27658 (9th Cir. 1995) [ELR 18:1:12]

Briefly Noted:

Forum selection clause in licensing contract. The California Court of Appeal has upheld the dismissal of a breach of contract lawsuit filed in California against the National Hockey League Players Association by a manufacturing company to which the Players Association had granted a license. The appellate court did so, because the licensing agreement between the manufacturing company and the Players Association contained a clause that specified the agreement was to be "governed by the law of Ontario, Canada" and required "claims arising hereunder" to be "prosecuted in the appropriate court of Ontario." Because the Players Association is based in Ontario and enters into licensing agreements with companies in many different countries, the court found the forum selection clause to be reasonable. The case arose because the Players Association terminated the company's license as a result of the company's alleged breach of several of its terms. Nevertheless, the appellate court rejected the company's argument that it was entitled to the benefit of California law and public policy against forfeitures — a benefit the company said it would lose if forced to litigate in Ontario, because (the company argued) Ontario law permits forfeitures under circumstances where California does not. The appellate court found California and Ontario law to be more similar than the company asserted, and in any event added that any "potential difference in the law of the two competing forums pertaining to forfeitures in license agreements does not amount to a conflict involving fundamental policy in California." *CQL Original Products, Inc. v. National Hockey League Players Ass n*, 39 Cal.App.4th 1347, 46 Cal.Rptr.2d 412, 1995 Cal.App.LEXIS 1079 (1995) [ELR 18:1:13]

International contract venue. A Federal District Court in New York has dismissed a breach of contract action filed by opera singer Luretta Bybee against the Bonn Opera Company of Germany and its General Manager, Gian-Carlo Del Monaco. The action arose out of the defendants' alleged breach of a contract for Bybee to perform with the Bonn Opera. Although Bybee lives and auditioned for the performance in New York, the contract itself was in the German language, required Bybee to perform in Germany, and called for payment to be made to her in German currency. Moreover, the Bonn Opera Company is an agency of the German government and "a significant cultural institution" in that country. For these reasons, Judge Sidney Stein granted the defendants' motion to dismiss on the grounds of *forum non conveniens*. *Bybee v. Oper der Standt Bonn*, 899 F.Supp. 1217, 1995 U.S.Dist.LEXIS 14436 (S.D.N.Y. 1995) [ELR 18:1:13]

International copyright venue. The Ninth Circuit Court of Appeals has affirmed the dismissal, under the doctrine of *forum non conveniens*, of a copyright infringement action brought by one Singapore corporation against another Singapore corporation in federal court in California, arising out of allegedly infringing acts committed in the United States. In a decision by Judge Floyd Gibson, the appellate court held that the District Court had not abused its discretion in deciding that Singapore itself was an adequate alternative forum and that dismissal of the case (so it could be pursued in Singapore) was favored by the balance of private and public factors that are used to decide which forum is best. The appellate court ruled that any territorial limitations on the geographic reach of the Singapore Copyright Act should not prevent the High Court of Singapore from awarding an amount of damages that takes into account the distribution of allegedly infringing goods (Sound Blaster computer sound card "clones") in the United States as well as in Singapore. In addition, the Ninth Circuit said that it was "aware of nothing preventing the High Court of Singapore from applying United States Copyright law. . . in the event that it determines the scope of remedies offered under the Singapore Copyright Act to be inadequate." *Creative Technology, Ltd. v. Aztech System Pte,* *Ltd.*, 61 F.3d 696, 1995 U.S.App.LEXIS 19179 (9th Cir. 1995) [ELR 18:1:13]

Trademark infringement. A preliminary injunction has been entered against the publishers of the Russian language newspaper *New York Kurier* prohibiting them from continuing to use the word "Kurier" or any confusingly similar word in their newspaper's title. The injunction was granted at the request of Russian Kurier, Inc., the publisher of the competing Russian language newspaper known simply as the *Kurier*. Judge John Koeltl ruled that the word "Kurier" is suggestive (rather than generic) as applied to newspapers, and is thus eligible for trademark protection. The judge also found that there is a likelihood of confusion because of the similarity between the two newspapers' names and because both newspapers cater to the Russian-speaking community in New York City. In an earlier, separate case, Judge Koeltl had issued a preliminary injunction against Russian Kurier — the company that is the plaintiff in this case — barring it from continuing to infringe copyrights owned by newspapers and a wire service in Russia. (*ELR* 17:8:13) In this case, the defendant argued that Russian Kurier's earlier copyright-infringing activities precluded the court from granting it injunctive relief in this case, as a result of the "unclean hands" doctrine. But Judge Koeltl rejected this defense, saying that "The equitable defense of unclean hands applies only when the inequitable conduct complained of by the defendant relates to the claim asserted against it." Here, the "inequitable conduct" of copyright infringement complained of by the defendant did not relate to the trademark infringement claim asserted against it. *Russian Kurier v. Russian American Kurier*, 899 F.Supp. 1204, 1995 U.S.Dist.LEXIS 13525 (S.D.N.Y. 1995) [ELR 18:1:14]

Book promotion damages. As a result of a dispute that arose "from book promotions gone awry," author Mary Ellen Pinkham and her company Mary Ellen Enterprises were awarded more than a million dollars in damages, and that award has been upheld by the Eighth Circuit Court of Appeals. The promotion in question involved the distribution of copies of the book *Mary Ellen s Best of Helpful Hints* as premiums to those who purchased L'eggs hosiery. Mary Ellen had authorized a company called Camex to sell 13,000 copies of the book to L'eggs for a test marketing. Camex later told Mary Ellen that the test had been unsuccessful and L'eggs would not be buying any more copies. In fact, however, L'eggs bought and distributed an additional 300,000 copies. This resulted in a summary judgment being entered against Camex and L'eggs for copyright infringement liability. (*Pinkham v. Sara Lee Corp.*, *ELR* 15:5:4) Thereafter, a half-million dollar judgment was entered for copyright damages, profits and attorneys' fees. In addition, Mary Ellen asserted claims for fraud, breach of contract, and breach of fiduciary duty against Camex; and after a jury trial, judgment was entered on those claims for more than a half-million dollars in additional damages. On appeal, Camex and L'eggs asserted a variety of objections to the amount of damages assessed against them. But in an opinion by Judge John Gibson, the appellate court has rejected their arguments and has affirmed the judgment in full. *Mary Ellen Enterprises v. Camex, Inc.*, 68 F.3d 1065, 1995 U.S.App.LEXIS 28250 (8th Cir. 1995) [ELR 18:1:14]

Unauthorized reception of Showtime signals in Canada. Allarcom Pay Television, a Canadian subscription television company, has won the right to pursue claims under California state law for unfair competition and interference with contract and prospective economic advantage, on account of the unauthorized reception and descrambling of *Showtime* signals by Canadian viewers, in violation of Allarcom's exclusive right to provide English-language subscription television programming in Western Canada. The case is interesting and unusual, because Allarcom has sued General Instrument Corp., the company that makes the encryption/decryption device used by companies in the pay-TV industry, and Showtime itself, rather than Canadian viewers who use illegally modified decryption devices to receive Showtime signals for free instead of paying for Allarcom's service. Allarcom originally sued General Instrument and Showtime in federal District Court in California, alleging violations of the Federal Communications Act as well as violations of California state law. Allarcom's claim is that General Instrument and Showtime sold decryption devices in greater numbers than would be necessary for Showtime affiliates in the United States, knowing that many of those devices were being modified and resold in Canada to Canadian viewers who would use them to receive Showtime signals rather than subscribe to Allarcom's service. The District Court dismissed the case entirely, on the grounds that Allarcom had not stated a claim under the Federal Communications Act, and on the grounds that its state law claims were preempted by federal law. The Ninth Circuit Court of Appeals has affirmed the dismissal of the Federal Communications Act claim, but has reversed as to the state law claims. In a decision by Judge Melvin Brunetti, the appellate court has ruled that the dismissal of the Communications Act claim was proper, because Allarcom had not alleged facts that amounted to a violation of the specific terms of that Act by Showtime or General Instrument. On the other hand, the appellate court ruled that Allarcom's state law claims concerning unfair competition and interference with contract and prospective economic advantage are not preempted by federal law; and thus those claims have been remanded to the District Court for further proceedings. *Allarcom Pay Television, Ltd. v. General Instrument Corp.*, 69 F.3d 381, 1995 U.S.App.LEXIS 31046 (9th Cir. 1995) [ELR 18:1:14]

Criminal penalties for unauthorized pay-TV signal decryption. Pay-TV programming is distributed by HBO and other premium channel companies to their cable system affiliates by means of encrypted (or "scrambled") satellite signals. The use of unauthorized descramblers results in losses totaling millions of dollars a year to the pay-TV industry. As a result, the sale of such devices has been made illegal and the penalties for doing so can be significant. In one recent case, federal District Judge Jimm Larry Hendren sentenced a violator to 46 months in prison to be followed by a three-year supervised release, and ordered him to make restitution of $2.7 million. The violator had been convicted of: mail fraud because he advertised his goods and services in *The Blank Box Newsletter*; wire fraud because he had telephone conversations that led to the sale of descrambling devices; violating the section of the Communications Act that prohibits the sale of devices for the unauthorized decryption of cable satellite programming; and criminal copyright infringement for the copying of descrambling software. On appeal, the violator challenged the sufficiency of the evidence against him and the penalty imposed. But the Eighth Circuit Court of Appeals, in a decision by Judge Floyd Gibson, has rejected all of the violator's challengers and has affirmed the violator's conviction and sentence. *United States v. Manzer*, 69 F.3d 222, 1995 U.S.App.LEXIS 30853 (8th Cir. 1995) [ELR 18:1:15]

Cable TV rate regulation. The Ninth Circuit Court of Appeals has held that federal law does not preempt a claim made under state law that a cable system operator is illegally pricing its service below cost in order to drive a competing cable operator out of business. This claim has been made by Total TV against Colony Communications, both of which provide cable TV service to homeowner associations in the greater Palm Springs area in California. The California Unfair Practices Act prohibits businesses from selling goods or services below cost "for the purpose of injuring competitors or destroying competition." Colony contended that Total TV's claim was preempted by provisions of the federal Cable Act which prohibit states from regulating rates for cable service, and which preempt state laws that are "inconsistent" with the Cable Act. However, in a decision by Judge Cecil Poole, the appellate court has held that the Cable Act does not preempt California's Unfair Practices Act, because the California law does not regulate cable TV rates. This is so, the court explained, because the Cable Act does not suggest "that 'rate regulation' includes predatory pricing or price discrimination measures." *Total TV v. Palmer Communications, Inc.*, 69 F.3d 298, 1995 U.S.App.LEXIS 29835 (9th Cir. 1995) [ELR 18:1:15]

ASCAP Consent Decree. A federal District Court in New York City has ruled that the per-program license proposed by ASCAP to radio stations that broadcast religious, classical music and foreign language programming would violate the ASCAP Consent Decree. In response to a motion for summary judgment by the radio stations, Judge William Conner, acting as the "rate court" under the ASCAP Consent Decree, found that ASCAP's proposed license would violate the decree, because it would have required such radio stations to pay license fees to ASCAP in connection with broadcasts of all music in the ASCAP repertory, even if those stations (or their program producers) had licensed that music directly from music publishers, and even if the broadcasts were a fair use (and thus non-infringing even without a license). On the other hand, Judge Conner agreed with ASCAP that if stations do not pay fees to ASCAP for music licensed from publishers or for fair use broadcasts, ASCAP will incur increased administrative expenses, because it will have to monitor stations to be certain that all of the music they broadcast is so licensed or is a fair use. As a result of these increased expenses, the judge said that he is "inclined to think" that a request by ASCAP for an increased fee to cover these additional monitoring costs would be "reasonable." But the judge could not determine how much a reasonable administrative fee would be without additional evidence, so that issue "must await trial." Judge Conner denied the radio stations' motion for a summary ruling that ASCAP's proposed rate violates Consent Decree. That argument was based on the rate-setting methodology used in a case involving local television station license fees; but Judge Conner ruled that the method used in the television case was not necessarily the method to be used in this radio case. The judge also denied the stations' motion for a summary ruling that ASCAP's proposed reporting requirements violate the Consent Decree. *United States v. ASCAP (Application of Salem Media)*, 902 F.Supp. 411, 1995 U.S.Dist.LEXIS 14035 (S.D.N.Y. 1995) [ELR 18:1:15]

INTERNATIONAL CASES

British court rules that Robert Godfrey was joint author of six songs recorded by band Barclay James Harvest; but Godfrey was estopped from revoking implied license granted to band because he delayed too long in asserting his rights

Thirty years ago, four young musicians from the Oldham area of Lancashire, England, formed a band called "Barclay James Harvest." The four were John Lees, Leslie Holroyd, Melvin Pritchard and Stuart Wolstenholme, and not long after forming their band, they turned "professional" — though this "is not to say [they] earned very much." Indeed, in their early years "they lived a hand-to-mouth existence," largely supported by their manager John Crowther. Real success didn't come until 1980, on the heels of a concert they gave that year in Berlin and an album of that concert released thereafter. In the interim, however, Robert Godfrey entered the band's life. Unlike the band members whose musical skills were "self-taught," Godfrey had been trained at the Royal Academy of Music and at the Royal College of Music. And for a year and a half, from mid-1969 to early 1971, Godfrey was the band's arranger and conductor.

During the time Godfrey was with the band, it recorded two albums, "Barclay James Harvest" released in 1970 and "Once Again" released in 1971, both of which were reissued as CDs in 1992. At the time the albums were first created, nothing was said about the nature of Godfrey's contributions; and he was not considered (by the band, at least) to be a joint author of any of the songs or an owner of any of their copyrights. Not long after Godfrey and the Barclay James Harvest went their separate ways, Godfrey and others formed the popular music group Siddartha. But Godfrey continued to "harbor a sense of grievance" over the failure of Barclay James Harvest to acknowledge his contribution to their two albums.

Eventually, in 1985, Godfrey sued the band, as well as its music publisher and record company, in the hopes of righting this grievance which he described as a "thorn in his side." The 1985 suit sought to establish that he was the joint author of six of the songs recorded on the albums, that as joint owner he was an owner of the songs' copyrights, that he had rescinded whatever implied license he may have given the band to use the songs, and that their continued sale of recordings of the songs constituted copyright infringement. Later, in 1994, Godfrey filed a second suit, alleging that he had an agreement with the band entitling him to one-fifth of its earnings.

The two lawsuits were consolidated for trial, and Judge Blackburne of the U.K. Chancery Division has rendered his decision. In a quite literary opinion (that reflects familiarity both with the British music scene and with musical composition theory), Judge Blackburne has ruled against Godfrey and has dismissed both cases. Though the opinion is lengthy and factually detailed, the judge telegraphs the grounds for his ruling early in the decision when he says: “One of the remarkable features of the plaintiff’s claims is that they relate to events which occurred upwards of 24 years ago. They [the copyright claims] were first asserted in a letter . . . sent to the . . . defendants . . . 14 and more years after the events to which it related. The contractual claim was first asserted . . . nearly 25 years after the . . . contract in question is said to have been made.”

As a matter of British copyright law, a work of joint authorship is one “produced by the collaboration of two or more authors in which the contribution of each author is not separate [or distinct] from the contribution of the other author or authors." A person who claims to be a joint author "must establish . . . that he has made a significant and original contribution to the creation of the work and that he has done so pursuant to common design." Judge Blackburne applied this standard separately to each of the six songs in question — "Dark Now My Sky," "When the World Has Woken," "Mocking Bird," "Galadriel," "Song for Dying" and "The Sun Will Never Shine" — and he concluded that in each case, Godfrey's contribution satisfied that standard.

As a joint author of the six songs, Godfrey was entitled to copyright in them, because British copyright law provides "that copyright is shared equally between . . . joint authors" in the absence of any agreement to the contrary. The judge rejected, as unsupported by the facts, the argument that Godfrey's contribution to the songs was made as an employee, and thus he rejected the argument that as a matter of law, the copyright in Godfrey's contribution was owned by his employer.

While Judge Blackburne found that Godfrey owned copyrights in the six songs, the judge also found that Godfrey "must be taken to have given his consent to the exploitation of those works by the defendants" — and that this "implied license was revocable." On the other hand, because the band and its publisher and record company had relied for 14 years on this implied license, the judge ruled that Godfrey was estopped from revoking it because it would be "wholly unconscionable if . . . [he] should be free to deny what for so long he allowed the defendants to assume . . . ."

Judge Blackburne rejected Godfrey's contract claim on the grounds that the evidence of any such contract — which consisted entirely of Godfrey's testimony concerning things he remembered being said years before — was insufficient. "Time plays notorious tricks with memory, particularly memory unaided by contemporary documentary evidence," the judge explained.

Godfrey v. Lees, [1995] EMLR 307 (available in the LEXIS Enggen Library, Cases File) [ELR 18:1:16]

WASHINGTON MONITOR

United States and China avoid threatened trade war; U.S. Trade Rep finds that China is now enforcing 1995 intellectual property agreement by cracking down on movie, music and software pirates

What a difference a day (or so) makes. Last month's issue of the *Entertainment Law Reporter* detailed the results of the United States Trade

Representative's 1995 review of the protection of the intellectual property rights of Americans. And the most newsworthy of those results was that China had been named a "Priority Foreign Country" under "special section 301" of the federal Trade Act, because it had not been providing adequate protection. (*ELR* 17:12:17) This designation is the most critical one available under U.S. trade law, and precedes the imposition of sanctions by only a step or two. In fact, shortly after this designation was made, the Clinton administration announced that it would impose 100 percent tariffs on $3 billion worth of imports from China, effective mid-June. China responded by announcing that if this were done, it would impose tariffs of its own on goods from the U.S. In other words, trade war had been threatened.

Just before the self-appointed mid-June deadline, Acting USTR Charlene Barshefsky announced — from Beijing — that China is now taking adequate enforcement actions and thus sanctions will not be imposed. The actions in question are those China originally agreed to in an Enforcement Agreement entered into with the U.S. last year. (*ELR* 16:11:24) Since signing that Agreement, U.S. government delegations have traveled to China nine times seeking Chinese compliance with its provisions. China finally has undertaken what Barshefsky has characterized as "a major crackdown" against piracy.

China has closed 15 pirate CD factories which had an estimated production capacity of 30 to 50 million units a year. Among other things, China has revoked audiovisual permits and local business licenses held by those factories; has seized and confiscated materials and machinery used to manufacture pirated products and has destroyed CD molds; and has investigated and prosecuted those accused of criminal activity in connection with the plants. China also announced a new prohibition against the opening of new CD plants; it has prohibited the importation of CD presses for any plants; and it has taken action against factories using presses whose importation was not authorized. Chinese officials also have shut down six notorious CD distribution markets in Guangdong, including the largest — the Yifa Market.

In another important step, more than 5,000 "laser disc showing rooms" have been shut, because those mini-theaters have been a major source of infringement activity. Chinese Customs officials also have seized tens of thousands of pirated CDs, VCDs and LDs.

In connection with access to the Chinese market by American firms, Barshefsky announced that "significant progress" has been made "in securing new opportunities in China for American IPR industries — including computer software, sound recordings and motion pictures." New opportunities have been created, she said, for record companies to enter into "cooperative relationships with Chinese publishing houses to sign artists, produce them and ultimately — through those publishing houses — to sell, produce, display and perform" them. In addition, it was announced that the "Chinese Government will also no longer maintain quotas on the import of motion pictures" and that American companies will be able to enter into projects with Chinese companies to coproduce motion pictures and television programs.

Barshefsky noted that "China's system of IPR enforcement must become self-sustaining," and she acknowledged that "We're not there yet." "But," she added, "the actions taken thus far are an important beginning." And she promised that "the United States will continue aggressively to work with China, monitor the situation, and ensure that our economic interests are protected."

[ELR 18:1:18]

DEPARTMENTS

In the Law Reviews:

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The Right of Publicity Versus Free Speech in Advertising: Some Counter-Points to Professor McCarthy by Stephen R. Barnett, 18 Comm/Ent, Hastings Communications and Entertainment Law Journal 593 (1996)

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Economic and Moral Rights under U.S. Copyright Law for the Protection of Authors and Producers in the Motion Picture Industry by Laura A. Pitta, 29 UNESCO Copyright Bulletin 5 (1996) (United Nations Education, Scientific and Cultural Organization, 7 place de Fontenoy, 75352 Paris 07 SP, France)

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Hollywood and Free Speech: The Contribution of the First Amendment and U.S. Media to the World-Wide Promotion of Democratic Values by Sandra Coliver, 17 Whittier Law Review 271 (1995)

International Free Expression Principles in Cyberspace by Gara LaMarche, 17 Whittier Law Review 279 (1995)

Distributing Motion Pictures Around the World: The International Nature of the Film Industry by Howard M. Frumes, 17 Whittier Law Review 285 (1995)

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Worldwide Copyright Protection by Schuyler M. Moore, 17 Whittier Law Review 301 (1995)

Expanding into the International Marketplace by Michael Shapiro, 17 Whittier Law Review 307 (1995)

Television and Motion Picture Co-Production in Germany by Phil Fehrle, 17 Whittier Law Review 313 (1995)

Breaking into the Russian Entertainment Market by Larry Namer, 17 Whittier Law Review 319 (1995)

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Who Owns Digital Rights? Examining the Scope of Copyright Protection for Electronically Distributed Works by Elizabeth Atwood Gailey, 18 Communications and the Law 3 (1996) (for address, see above)

When Classified Ads Lead to Murder: Hitmen, Soldier of Fortune, and the Question of Commercial Speech by Juliet Dee, 18 Communications and the Law 29 (1996) (for address, see above)

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The Advertising Law of the European Union by Arnold Vahrenwald, 18 European Intellectual Property Review 279 (1996) (for address, see above)

Legal Protection of Computer Programs in Russia by Andrei Yakovlev, 18 European Intellectual Property Review 292 (1996) (for address, see above)

The Entertainment Law Review, published by Sweet & Maxwell Ltd., FREEPOST, Andover Hants, SP10 5BR, United Kingdom, has issued Volume 7, Number 3 with the following articles:

People You Know, Yet Can t Quite Name... Fair or Foul in the Wet Wet Wet Case by Ellen Gredley and Spyros M. Maniatis, 7 Entertainment Law Review 99 (1996) (for address, see above)

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[ELR 18:1:19]