

RECENT CASES

Supreme Court rules that NFL teams did not violate antitrust law by agreeing on uniform salary for practice squad players, after impasse in collective bargaining with Players Association; ruling affirms Circuit Court decision setting aside \$32 million judgment players had won against NFL

It was, in many ways, a lawsuit of “Super Bowl” proportions. The offensive team was made up of 235 professional football players. The defensive team consisted of the clubs of the National Football League. At stake was a \$32 million judgment the players had won in a federal District Court — a judgment that had been set aside by a federal Court of Appeals. (*ELR* 17:4:19) The players petitioned the Supreme Court, hoping it

would reinstate their victory. But when the final vote of the Justices was tallied, it was the NFL clubs who had won.

The legal issue before the Supreme Court was whether the clubs had violated antitrust law by agreeing among themselves to fix the salary of practice squad players at \$1,000 per week each, or whether instead that agreement was exempt from the antitrust laws by virtue of a legal doctrine known as the “implied” or “non-statutory labor exemption.” Though this doctrine has been recognized for quite some time, the Supreme Court had dealt with it before only in cases where the allegedly illegal collusion among employers had actually resulted in collective bargaining agreements. The practice squad players’ lawsuit was different, because in their case the offending agreement among the clubs was reached after an existing collective bargaining agreement with the Players Association had expired and after

an impasse had been reached in collective bargaining for a new agreement. Thus in this case, the clubs' agreement among themselves to pay practice squad players the fixed salary of \$1,000 per week was not contained in a collective bargaining agreement.

The players argued that the implied or non-statutory labor exemption insulates employers from anti-trust liability only if and for so long as a collective bargaining agreement exists. The players, in other words, asserted that the exemption expires when the collective bargaining agreement does. But the Supreme Court rejected this argument, saying that the decisions on which the players relied for that argument reflect "only the fact that the cases previously before the Court involved collective-bargaining agreements." The Court also rejected the players' more conservative argument that the exemption permits post-impasse agreement among employers about bargaining "tactics" but not about the

“terms” of employment. The Court rejected this test because it would require courts to inquire into employers’ motives which are often “amorphous.” The Solicitor General made an even more conservative argument in support of the players’ position. He contended that while the exemption lasts beyond the expiration of the collective bargaining agreement, it lasts only until an impasse is reached. If and when an impasse is reached, the Solicitor General asserted, the exemption expires at that time. But the Court rejected this argument too. Justice Stephen Breyer, writing for an 8-to-1 majority, noted that even after impasse, federal labor law permits and sometimes requires employers to do things that might be construed as antitrust violations.

Editor s note: This case has been closely watched throughout the entertainment industry, and by those in other industries as well, because the issue it raised is important whenever unions bargain with multi-employer

groups. Multi-employer groups are common in professional sports (they exist in the NFL, NBA, NHL and Major League Baseball) as well as in the movie and television businesses (where producers are represented for collective bargaining purposes by the AMPTP). Multi-employer groups also are common in other segments of American industry: Justice Breyer noted that more than 40 percent of major collective bargaining agreements are the product of multi-employer bargaining. The Court's decision strengthens the position of employers at the expense of employees, by depriving employees of the weapon of antitrust lawsuits against their employers. But the Court's majority offered no apology for doing so. From the majority's point of view, labor peace is best achieved through good faith negotiations in collective bargaining; and disputes about whether bargaining is being conducted in good faith should be resolved by the National Labor Relations

Board, “a single expert body,” rather than by countless federal judges ruling in antitrust lawsuits. As a consequence of this ruling, it now appears that employees will be able to assert antitrust claims against employers with whom they once had bargained collectively only by first voting to decertify their unions and forego collective bargaining altogether. Professional football fans will recall that this is exactly what NFL players did in November 1989 — after the NFL adopted the \$1,000 per week practice squad salary — in order to pursue a separate antitrust suit (on behalf of other players) against teams in the league (*ELR* 13:11:13).

Brown v. Pro Football, Inc., 64 USLW 4554, 1996 U.S.LEXIS 4047 (1966) [ELR 18:2:3]

Supreme Court rules that federal District Court must first review reasonableness of \$450,000 jury verdict in favor of photographer William Gasperini whose photographs were lost by Center for Humanities, and that federal Circuit Court may then review District Court s decision for abuse of discretion

The question of whether judges may review the size of jury verdicts — and if so, under what standards — is a question that has significant consequences, even though it sounds procedural and “technical.” In federal court cases, the answer to this question also has been surprisingly uncertain, because the 7th Amendment to the Constitution protects “the right of trial by jury” and prohibits federal judges from re-examining facts tried by juries except as permitted by common law. When cases are tried in federal court under “diversity jurisdiction” — because the parties are from different states — the

question has been most difficult, because diversity cases are tried under state substantive law and federal procedural law. State laws controlling the permissible size of jury verdicts appear to be procedural but may actually have substantive effects. And that means that the impact of the 7th Amendment on the review of jury verdicts in federal diversity cases was an issue worthy of the attention of the Supreme Court.

That issue was presented to the Supreme Court in a case in which a jury awarded a photographer \$450,000 in damages on account of the loss of 300 of his transparencies. The photographer, William Gasperini, is a resident of California and a “well-regarded journalist for CBS News and the Christian Science Monitor” who sold photographs only “on occasion” and who earned just over \$10,000 doing so over a 10-year period from 1984 through 1993. In 1990, Gasperini delivered 300 transparencies to the Center for the Humanities, a New

York corporation, for its use in producing a video titled “Conflict in Central America.” When the transparencies were lost, the Center admitted liability, but it and Gasperini disagreed about the amount he should be compensated. Gasperini sued in federal District Court in New York, and the jury’s \$450,000 award was based on expert testimony, offered by Gasperini over the Center’s objection, that the “industry standard” rate for publishable transparencies was \$1,500 each. The Center asked the District Court to set aside the verdict under a New York tort reform law passed in 1986 which permits judges to order new trials if a verdict is “excessive or inadequate” because it “deviates materially from what would be reasonable compensation.”

The District Court judge denied the Center’s motion for a new trial, without explaining why. The Second Circuit Court of Appeals reversed, however. In an opinion by Judge Guido Calabresi, the Court of Appeals

concluded the jury's \$450,000 verdict was excessive under New York's "deviates materially" standard, because in cases like this, New York law requires consideration of the uniqueness of the transparencies and the earning level of the photographer. Here, Gasperini had not shown that all 300 of the transparencies were unique, and his earnings of \$10,000 over 10 years did not support such a large award either. Accordingly, the Court of Appeals set aside the \$450,000 judgment and ordered a new trial, unless Gasperini were willing to accept \$100,000. (*ELR* 17:12:13)

Gasperini then appealed to the Supreme Court, arguing that the decision of the Court of Appeals violated his 7th Amendment right to a jury trial. In a 5-to-4 ruling, the Supreme Court has rejected that argument. Justice Ruth Bader Ginsburg, writing for the majority, held that in diversity cases, federal District Judges have the power to review jury verdicts under standards

established by state law, and that federal Circuit Judges may review those decisions, without violating the 7th Amendment.

Though the Supreme Court upheld the right of federal judges to review the jury's \$450,000 verdict, the Supreme Court vacated the judgment of the Second Circuit nonetheless, because the Supreme Court held that the District Judge should be given the opportunity to review the verdict first, under New York's "deviates materially" standard; and then the Second Circuit could review the District Court's ruling under the federal "abuse of discretion" standard. (Under the abuse of discretion standard, the Second Circuit would decide whether the District Court abused its discretion in reviewing the jury's verdict, but the Second Circuit would not directly review the jury verdict itself under the New York "deviates materially" standard.)

Gasperini v. Center for Humanities, Inc., 64 USLW 4607, 1996 U.S.LEXIS 4051 (1996) [ELR 18:2:4]

Supreme Court rules that states are immune from lawsuits brought by Indian tribes seeking authorization to operate gambling casinos, races and lotteries, despite federal statute providing for such suits; Court also vacates judgment in separate case that had denied immunity to state university press in copyright infringement suit alleging unauthorized publication of short stories, and remands case for further reconsideration in light of Indian gambling decision

The connection between the regulation of gambling and the protection of copyrights is not immediately obvious — but just such a connection has been made in

a pair of recent decisions by the United States Supreme Court. Though gambling is a major form of entertainment in this country, readers of the *Entertainment Law Reporter* are likely to be more interested in the copyright decision, because the Court's gambling decision involves an issue that is narrow even to those in the gambling industry. On the other hand, in order to appreciate the likely impact of the Court's copyright ruling, it is necessary to first understand the gambling case.

The issue in the gambling case was whether states may be sued by Indian tribes seeking authorization to operate gambling casinos, races and lotteries. As a matter of statutory law, the answer to that question was clearly "yes," because of provisions of the Indian Gaming Regulatory Act which Congress passed in 1988. That Act does three things: it permits Indian tribes to conduct gambling activities under the terms of a "compact" between the tribe and the state in which those

activities are to take place; it imposes a duty on states to negotiate such compacts in good faith; and it authorizes tribes to bring suits in federal court to compel states to perform that duty. The Act was passed under the Indian Commerce Clause of the Constitution (Article I, section 10, clause 3). But the 11th Amendment to the Constitution grants states immunity from suit in federal courts, under many circumstances.

The conflict between the Indian Gaming Regulatory Act and the 11th Amendment was brought to a head in a case filed against the state of Florida by the Seminole Tribe. Florida asserted it was immune from suit. And in a 5-to-4 decision, the Supreme Court has ruled that it is. The opinion of the Court is by Chief Justice William Rehnquist; and it holds that the Indian Commerce Clause did not grant Congress the power to subject states to suit in federal court, and thus the 11th Amendment makes states immune from such suits. The

decision is an important one concerning the power of Congress and the relationship between the federal and state governments; and the decision is likely to be studied for years by law and political science students for what it has to say about these issues.

Entertainment lawyers will be more interested in an observation made by Justice John Paul Stevens in his dissenting opinion. Justice Stevens warned that “The majority’s opinion does not simply preclude Congress from establishing the rather curious statutory scheme under which Indian tribes may seek the aid of a federal court to secure a State’s good faith negotiations over gaming regulations. Rather, it prevents Congress from providing a federal forum for a broad range of actions against States, from those sounding in copyright and patent law, to those concerning bankruptcy, environmental law, and the regulation of our vast national economy.” Justice Stevens cited, as an example of one such

action, the case of *Chavez v. Arte Publico Press* (ELR 17:8:17) in which the Fifth Circuit Court of Appeals had recently held that a state university press was not immune from suit in federal court for allegedly infringing an author's copyright in a collection of short stories. Chief Justice Rehnquist responded to Justice Stevens's warning (that since federal courts have exclusive jurisdiction over copyright cases, there would be no remedy for copyright infringement by states) by saying "That conclusion is exaggerated both in its substance and in its significance."

In fact, however, it appears as though Justice Stevens' prediction is likely to be proved correct. This is so, because the University of Houston — a state-owned institution, and the owner of Arte Publico Press — had petitioned the Supreme Court for a writ of certiorari, hoping the Supreme Court would overturn the Fifth Circuit's ruling in *Chavez v. Arte Publico Press* on the

grounds that the University and Arte Publico Press are immune from suit for copyright infringement. Just weeks after the Court issued its ruling in the Indian gambling case, the Supreme Court granted the University of Houston's petition; and in a one-sentence order, the Court vacated the judgment and remanded the case to the Fifth Circuit "for further consideration in light of *Seminole Tribe of Florida v. Florida*."

Editor's note: In light of the Supreme Court's decision in the *Seminole Tribe* case, and its remand of the *Arte Publico Press* copyright case "for further consideration in light of *Seminole Tribe . . .*," it seems virtually certain that the Fifth Circuit will hold that the Press and the University of Houston are immune from suit for copyright infringement. This is so, because in his *Seminole Tribe* decision, Chief Justice Rehnquist said that Justice Stevens had "exaggerated" the consequences of *Seminole Tribe*, because no federal decision had ever

recognized the power of Congress to make states liable for copyright infringement. In other words, it appears that the Chief Justice was suggesting that the majority's *Seminole Tribe* decision *changed* nothing in the copyright area, because states *always* have been immune from copyright infringement suits despite a 1990 amendment to the Copyright Act that expressly made states subject to such suits (*ELR* 12:10:20). This would be a terrible result for copyright owners, because if states are immune from copyright liability, state-owned universities will be able to publicly perform music and videos without paying royalties, will be able to photocopy books and journal articles without licenses, and will be able to install software on countless computers without financial liability. Chief Justice Rehnquist suggests only one limit on this bleak scenario: he acknowledges that the 11th Amendment does not prevent federal judges from issuing *injunctions* against state officials barring

them from violating federal rights. But copyright owners are likely to find this to be an inadequate remedy.

Seminole Tribe of Florida v. Florida, 64 USLW 4167, 1996 U.S.LEXIS 2165 (1996); *University of Houston v. Chavez*, 64 USLW 3762, 1996 U.S.LEXIS 3021 (1996) [ELR 18:2:5]

Supreme Court invalidates Rhode Island statute that prohibited liquor price advertising; Court also vacates judgment in separate case that had upheld the validity of Baltimore ordinances that ban all billboard advertising of alcohol and cigarettes, and Court remands Baltimore case for further consideration in light of Rhode Island liquor price advertising decision

In two separate but similar cases, the United States Supreme Court has struck important blows for the free speech rights of advertisers — even those whose products, like liquor and cigarettes, are considered dangerous “vices” by many.

In *44 Liquormart, Inc. v. Rhode Island*, the Supreme Court has declared unconstitutional a Rhode Island statute that prohibited retail price advertising for liquor products. The Court held that the state’s absolute ban on providing the public with information — even information that was perfectly accurate — about liquor prices “is an abridgment of speech protected by the First Amendment.” And the Court ruled that the ban “is not shielded from constitutional scrutiny by the Twenty-first Amendment” which is the Amendment that gave states the power to prohibit the possession or consumption of alcohol within their borders. In an opinion by Justice John Paul Stevens, the Court concluded that in order for

a ban on price advertising to be constitutional, Rhode Island would have had to show that the ban would “significantly advance the State’s interest in promoting temperance” and that the ban was “no more extensive than necessary . . . to achieve the State’s goal of promoting temperance.” Rhode Island failed on both counts. It failed to introduce evidence that the price advertising ban had “significantly” reduced alcohol consumption; indeed, expert testimony had shown that the ban had “no significant impact on levels of alcohol consumption in Rhode Island.” Likewise, the Court found it “perfectly obvious that alternative forms of regulation that would not involve any restriction on speech would be more likely to achieve the State’s goal of promoting temperance.” The Court cited increased taxes, limits on per capita purchases, and educational campaigns as examples of such alternatives.

In *Penn Advertising of Baltimore v. Mayor*, the Supreme Court vacated a judgment that had upheld the constitutionality of an ordinance that bans billboard advertising of alcohol and tobacco products (*ELR* 17:11:12). In a one-sentence order, unaccompanied by any opinion, the Supreme Court remanded that case to the Fourth Circuit Court of Appeals “for further consideration in light of *44 Liquormart, Inc. v. Rhode Island*.”

Editor's note: The Supreme Court's decision in the *44 Liquormart* case lends substantial support to the notion that it would be unconstitutional for states or Congress to completely ban truthful ads for legal products, including alcohol and tobacco products, or for services like lotteries and casino gambling. A decade ago, the Supreme Court did uphold the constitutionality of Puerto Rico's ban on casino advertising in the case of *Posadas de Puerto Rico Associates v. Tourism Co.* (*ELR* 8:5:15) Rhode Island relied heavily on the

Posadas case to support its own law against liquor price ads; but that reliance turned out to be misplaced. In its 44 *Liquormart* decision, the Supreme Court acknowledged that the “reasoning in *Posadas* does support the State’s argument.” “But,” the Court added, “on reflection, we are now persuaded that *Posadas* erroneously performed the First Amendment analysis.” The Court explained that “*Posadas* clearly erred in concluding that it was ‘up to the legislature’ to choose suppression over a less speech-restrictive policy”; and therefore the Court “decline[d] to give force to its highly deferential approach.” These statements amount to a *de facto* overruling of *Posadas*, and they call into doubt the constitutionality of the federal statute that prohibits casino gambling advertising on radio and television. That statute was upheld by the Fifth Circuit in *Greater New Orleans Broadcasting Ass’n v. United States* (ELR 18:1:10); but a petition for cert has been filed in that

case, so the last word on casino advertising has yet to be written.

44 Liquormart, Inc. v. Rhode Island, 64 USLW 4313, 1996 U.S.LEXIS 3020 (1996); *Penn Advertising of Baltimore v. Mayor*, 1996 U.S.LEXIS 4281 (1996) [ELR 18:2:6]

Settlement of Delaware state court class action lawsuit arising out of Matsushita's acquisition of MCA barred class members from pursuing federal court suit in California, Supreme Court rules

Matsushita's acquisition of MCA has produced a United States Supreme Court decision that explains when the settlement of a state court class action lawsuit bars class members from pursuing a separate federal

court lawsuit arising out of the same transaction. This issue sounds narrow and procedural, and it is; but in this day and age of mergers and acquisitions among publicly-traded companies, it's also an important issue, for the entertainment industry and all others.

The issue arose in connection with Matsushita's 1990 acquisition of MCA because that transaction triggered two separate class action lawsuits on behalf of MCA shareholders: one filed in Delaware state court alleging violations of Delaware state law, and another filed in federal court in California alleging violations of federal securities law. The California federal case was dismissed, in response to Matsushita's motion for summary judgment, and the plaintiffs appealed to the Ninth Circuit. While that appeal was pending, the Delaware case was settled. The settlement permitted class members to "opt-out" of the settlement, if they chose to do so. But among other things, the terms of the settlement

provided that those class members who did not choose to opt-out were barred from pursuing the still-pending federal action in California. The terms of that settlement were approved by the Delaware Supreme Court. (*ELR* 15:6:20)

The plaintiffs in the California federal case were members of the Delaware class — and they did not opt-out of that settlement. Therefore, Matsushita invoked the Delaware settlement in the Ninth Circuit, asserting that under the federal Full Faith and Credit Act, the California federal case could no longer be pursued because the Delaware settlement barred the plaintiffs from doing so. The Ninth Circuit, however, rejected Matsushita's argument, on the grounds that the California federal case alleged claims under federal law over which federal courts have exclusive jurisdiction; and thus those claims could not be extinguished by Delaware state courts. (*ELR* 16:12:6) Other courts had reached different

conclusions in similar cases, so the Supreme Court agreed to hear this case “to clarify this important area of federal law.”

Matsushita has prevailed. In an opinion by Justice Clarence Thomas, the Supreme Court has ruled that a federal court may not decline to give full faith and credit to a state-court judgment that approves a class-action settlement, simply because the settlement requires class members to release claims that are within the exclusive jurisdiction of federal courts. Instead, the Supreme Court held that federal courts should give state court judgments the same effect they would have in the courts of the state in which they were rendered. And in this case, Delaware courts would have given the settlement of the class action the effect of barring class members from pursuing securities law claims in federal courts, even if those claims were based on federal law.

Editor s note: The Supreme Court was not troubled by the fact that its ruling permitted Delaware state courts to bar plaintiffs from asserting purely federal claims in federal courts, because the settlement itself gave class members the right and opportunity to opt-out of the settlement. Those who did were permitted to continue pursuing their federal claims in federal court, even under the terms of the settlement, and some in fact did opt-out and did continue to pursue their federal claims against Matsushita. The plaintiffs in this case were barred from doing so, only because they did not elect to opt out. In other words, the plaintiffs in this case wanted to “have their cake and eat it too,” because they wanted to receive the benefits of the settlement of the Delaware class action at the same time they continued to pursue the hoped-for benefits of the California action. This is what they were not permitted to do, by the Supreme Court’s ruling.

Matsushita Electric Industrial Co., Ltd. v. Epstein, 64 USLW 4101, 1996 U.S.LEXIS 1550 (1996) [ELR 18:2:7]

Personal managers must be licensed as talent agents in California if they seek employment for their clients, even if seeking employment is only an incidental activity, California Court of Appeal rules; earlier, contrary ruling by another panel of the same court is rejected as incorrect dicta

California law makes an important distinction between *talent agents* and *personal managers*: agents must be licensed; managers need not be. The difference between agents and managers appears clear from the California Talent Agencies Act. (Cal. Labor Code sec.

1700 et seq.) Agents get jobs for their clients, while managers do not (though managers may get recording contracts for their clients). In practice, however, the difference between agents and managers has been the subject of unending litigation and commentary. Now, as the result of a recent decision by the California Court of Appeal, even more controversy and litigation are assured.

There are at least two reasons the distinction between agents and managers is important. First, if a manager gets jobs for clients (or tries to) without being licensed, the contract between the manager and his or her client may become unenforceable. More serious yet, the manager may have to refund commissions previously received from the client, even though those commissions were fairly earned for services actually rendered. (Arsenio Hall's former manager was ordered to refund more than \$2 million in commissions because his former manager was held to have procured employment for

Hall without being licensed as a talent agent. (*ELR* 15:5:4))

Second, managers sometimes seek employment for their clients only as an incidental aspect of their primary responsibility, which is the care and development of their clients' careers. Intuitively, managers apparently suppose that such incidental activity does not make them agents and thus does not require them to be licensed as agents. In fact, New York law contains an express provision in its agent-licensing statute that exempts managers whose business "only incidentally involves the seeking of employment." (New York General Business Law sec. 171) The California Talent Agencies Act contains no such exemption for incidental procurement activities, however, and until 1993, it was believed and argued by many that no such exemption existed anywhere in California law.

Then, in 1993, the California Court of Appeal decided the case of *Wachs v. Curry*, 13 Cal.App.4th 616 (1993) (*ELR* 15:3:3), in which the court held that managers are *not* required to be licensed as talent agents unless procuring employment for their clients constitutes a “significant part” of their business.

However, another panel of the same California Court of Appeal now has ruled that managers must be licensed if they seek employment for their clients, even if they devote only an “incidental” portion of their business to procuring employment. The client in the more recent case was Peppercorn Productions, a corporation that creates puppets for use in the entertainment industry and in advertising and also has “been involved in producing various television projects.” The manager, Brad Waisbren, “assisted in project development, managed certain business affairs, supervised client relations and publicity, performed casting duties, advised Peppercorn

regarding the selection of artistic talent, coordinated production, and handled office functions, such as the hiring and firing of personnel.” In addition, “Occasionally, Waisbren procured employment for Peppercorn, but his efforts in that regard were incidental to his other responsibilities.” Waisbren rendered these services for 7 years pursuant to an oral agreement which provided that he was to receive 15 percent of Peppercorn’s profits.

When their relationship ended, Waisbren sued Peppercorn for allegedly unpaid compensation. Peppercorn sought and was granted summary judgment on the grounds that Waisbren had acted as an unlicensed talent agent, and the appellate court has affirmed. It has done so on the grounds that the California Talent Agencies Act requires all of those who seek employment for their clients to be licensed, without exception or exemption. In so ruling, the appellate court specifically rejected — as “incorrect” “dicta” — the earlier contrary ruling in

Wachs v. Curry. According to the court, “The statutory goal of protecting artists would be defeated if the Act applied only where a personal manager spends a significant part of his workday pursuing employment for artists. The fact that an unlicensed manager may devote an ‘incidental’ portion of his time to procurement activities would be of little consolation to the client who falls victim to a violation of the Act. As a result, the licensing scheme contemplates that the ‘occasional talent agent,’ like the full-time agent, is subject to regulatory control.”

Editor’s note: The *Wachs v. Curry* decision was rendered in a case in which Arsenio Hall’s former manager, Bob Wachs, sought a judicial declaration that the California Talent Agencies Act was unconstitutional. The appellate court rejected Wachs’ argument and upheld the constitutionality of the Act. But in order to do so, the court had to construe the Act to require talent agency licenses only when procuring employment is a

“significant part” of the manager’s business. The defendant in the *Wachs* case was the California Labor Commissioner. And according to oral statements later made by the Labor Commissioner’s lawyer, it was the Commissioner’s lawyer himself who had made the “significant part” argument to the appellate court, in support of his argument the law is constitutional. Since *Wachs* was decided, the Labor Commissioner’s office itself has applied the “significant part” test, without apparent objection or reluctance. (*ELR* 16:5:3) In other words, the “significant part” test exists because it was urged on the courts by the very state official who is responsible for enforcing the Talent Agencies Act; and it has been used by that official in deciding cases under the Act ever since. The Labor Commissioner was not a party to the *Waisbren v. Peppercorn* case; the only parties to that case were the manager and his client. This no doubt explains why Peppercorn was able to argue that

Wachs was incorrectly decided. What is less clear is why the appellate court accepted the argument. Since *Wachs* and *Waisbren* were decided by courts of equal dignity, there now is a split of authority within California; and the law is even less clear on this important and practical issue than it has ever been before.

Waisbren v. Peppercorn Productions, Inc., 41 Cal.App.4th 246, 48 Cal.Rptr.2d 437, 1995 Cal.App. LEXIS 1237 (1995) [ELR 18:2:7]

Federal court grants MGM s request for preliminary injunction barring Honda from using television commercial featuring well-dressed couple being chased by helicopter, on grounds that it infringes MGM s copyrights in James Bond films and character

Late in 1994, Honda premiered a television commercial depicting “a young, well-dressed couple in a Honda del Sol being chased by a high-tech helicopter.” As the commercial was later described by federal District Judge David Kenyon, “A grotesque villain with metal-encased arms jumps out of the helicopter onto the car’s roof, threatening harm. With a flirtatious turn to his companion, the male driver deftly releases the Honda’s detachable roof . . . , sending the villain into space and effecting the couple’s speedy get-away.”

According to the vice-president of Honda’s advertising agency, this commercial was inspired by the climax scene in the movie “Aliens,” in which the alien was ejected from a spaceship while still clinging to its door. MGM thought otherwise however. It thought that the Honda commercial was inspired by — indeed “copied” from — its James Bond movies, and that this

copying amounted to an infringement of MGM's copyrights in those movies and in its version of the James Bond character himself. As a result, MGM sued Honda and its advertising agency for copyright infringement. And that is why Judge Kenyon had occasion to describe the Honda del Sol commercial.

So confident were MGM and Honda in their respective positions, that MGM made a motion for a preliminary injunction barring further use of the commercial, and Honda made a motion for summary judgment dismissing the case entirely. MGM won; Honda lost. In reaching his decision, Judge Kenyon analyzed both the *copyrightability* of the material Honda was accused of copying, and whether Honda's alleged copying amounted to *infringement*.

With respect to the copyrightability issue, Honda challenged MGM's claim of ownership to the copyright to the James Bond character, pointing out that two

James Bond movies — “Casino Royale” and “Never Say Never Again” — were produced by other studios. MGM however argued, and Judge Kenyon agreed, that MGM is entitled to a copyright in the Bond character “as expressed and delineated” in the 16 Bond movies MGM itself had produced, and that the “work” at issue in the case was MGM’s version of the Bond character, “not the James Bond character generally.” Judge Kenyon found, too, that MGM’s version of James Bond is a copyrightable character under either of two tests that have been applied in the Ninth Circuit: the “story being told test” or the “character delineation” test.

Honda also argued that the action sequences it allegedly copied are not protected by copyright, but the judge disagreed. “A filmmaker could produce a helicopter chase scene in practically an indefinite number of ways,” Judge Kenyon said, “but only James Bond films bring the various elements . . . together in a unique and

original way.” Therefore, he concluded that it was likely MGM would succeed on its claim that its “expression of the action film sequences in the James Bond films is copyrightable.”

With respect to the infringement issue, Judge Kenyon found it likely that the commercial resulted from actual copying. Though Honda’s advertising agency testified otherwise, the judge found that testimony to be “neither very strong nor credible.”

Judge Kenyon also found there to be “substantial similarity between the specific protected elements of the James Bond films and the Honda commercial.” The judge’s similarity analysis was addressed to theme, plot, sequence, settings, mood and pace, dialogue and characters; and he identified “several specific aspects of the Honda commercial [that] appear to have been lifted from the James Bond films.”

Honda’s fair use defense was rejected.

Editor's note: This, in my opinion, was a tougher case than Judge Kenyon's opinion lets on. I have seen the commercial in question, and — again in my opinion — the primary reason the commercial brings James Bond to mind is because the *style* of the commercial's *music* soundtrack is reminiscent of the *style* of the music in James Bond movies. Other elements of the commercial, including its male character, are commonly found in all action adventure movies. Indeed, the commercial is as reminiscent of the Arnold Schwarzenegger movie "True Lies" — the special effects for which were created by the same people who worked on the commercial — as it is of James Bond movies. While Judge Kenyon recognized that MGM is entitled to claim copyright only in the particular form of the expression of its movies, his "substantial similarity" analysis was based on very broad and abstract descriptions of the elements of those movies. As a result, the judge could have concluded that

Honda did not infringe MGM's copyrights; and if he had, that decision would have been equally as persuasive as the one he did reach — perhaps, in fact, more persuasive. Moreover, the arguments MGM used with success in this case are arguments that are more likely to hurt MGM — and other studios — in future cases, than help. This is so, because the arguments are precisely those used in lawsuits brought by aspiring screenwriters in idea-submission cases against studios and TV production companies; and now these arguments have received the blessing of a federal judge in a published decision. One possible explanation for why MGM pursued this case nevertheless is this: the lawsuit was filed at about the time MGM released its latest Bond movie, “GoldenEye,” in connection with which the studio had a tie-in agreement with BMW. Another possible explanation for the suit against Honda is that MGM is licensing other companies to use the “James Bond character and image”

in their ads. According to new reports, one such license has been issued to Pepsi-Cola for use in a Mountain Dew ad. According to the same report, MGM has filed a new lawsuit against the British conglomerate Hanson over its use of actor Roger Moore — who portrayed James Bond in earlier movies — in a television commercial. In the ad, a tuxedo-suited Moore and a beautiful woman are lowered by a menacing villain into a tank of killer goldfish. (WALL STREET JOURNAL, 5-16-96)

Metro-Goldwyn-Mayer, Inc. v. American Honda Motor Co., 900 F.Supp. 1287, 1995 U.S. Dist. LEXIS 19169 (C.D. Cal. 1995) [ELR 18:2:9]

NFL Properties and New England Patriots win dismissal of copyright infringement action filed by fan who submitted design for team's new logo; court

finds that team logo was independently created by professional designer who had no access to fan s submission

“The best defense,” football experts sometimes say, “is a good offense.” In football, that may be true. But in litigation, the best defense may just be . . . a good defense. That was the strategy employed, with success, by NFL Properties and the New England Patriots in a copyright infringement suit filed by a fan who sent the team his design for a new logo when the media reported the Patriots were considering changing their logo in 1993.

In the game of football, proper execution is a function, in part, of timing. And that was true in the infringement case too. The evidence showed that when the Patriots decided to change their logo, they advised NFL Properties of their plans, and NFL Properties retained a

professional design firm which began work on the logo in January 1993. (NFL Properties coordinates design assignments for NFL teams.) The fan submitted his design to the Patriots some two weeks later in February 1993.

A federal District Court has dismissed the fan's suit, in response to a motion for summary judgment filed by NFL Properties and the Patriots. Judge Edward Harrington did so because the fan had not shown that his design had been copied, for three reasons.

First, the fan was unable to prove that his design had been seen by the professional designer or by NFL Properties or by anyone employed by the Patriots responsible for production of the team's logo. The defendants all testified that they had not seen the fan's design. And Judge Harrington ruled that the fan was not entitled to a trial, simply to try to persuade a jury to disbelieve that testimony.

Second, the Patriots showed that they had established and followed a policy that was set up to prevent the people responsible for designing the new logo from seeing any designs submitted by the public. This was done because even though the team told the public it was not accepting unsolicited submissions, many fans continued to send designs to the Patriots, and thus the policy was established in order to avoid potential copyright or trademark liability.

Third, the sketches created by the professional designer in January 1993 “clearly bear a resemblance to the logo that the team eventually adopted.” From this, Judge Harrington concluded the designer could not have used the design submitted by the fan some two weeks later. Thus, the design actually used by the Patriots was independently created; and copyright liability does not result from independent creation.

Grubb v. National Football League Properties, Inc.,
901 F.Supp. 36, 1995 U.S.Dist.LEXIS 16097 (D.Mass.
1995) [ELR 18:2:10]

NCAA rule restricting salaries of certain basketball coaches violates antitrust law, federal District Court rules

“A level playing field” is the holy grail of organized sports. There are lots of reasons one team wins, and the other loses, a particular game. But there are only two things that make playing fields uneven: money, and the willingness of some teams to spend more than others in order to win. As a result, in pursuit of level playing fields, sports organizations have adopted rules designed to curb the willingness of some teams to spend more

than others on all manner of things that help them win, players and coaches included.

In 1991, the National Collegiate Athletic Association adopted such a rule. It prohibited Division I schools from paying more than \$16,000 a year to basketball coaches, other than a head coach and two assistant coaches. The unabashed reason for the basketball coach salary restriction was to enable schools to “cut costs and save money.” And the reason a *rule* was necessary was that in the NCAA’s experience, “unilateral cost reduction efforts by individual members were ineffectual.” In other words, in the absence of a *rule*, some schools would spend more money than others to hire coaches, and that would put cost-reducing schools at a competitive disadvantage.

Of course, a reduction in one person’s *costs* is a reduction of another’s *income*. And when the NCAA adopted this particular rule, many basketball coaches

who had been earning \$60,000 or \$70,000 a year suddenly found they could only be paid \$16,000. Several of these coaches did what people often do in similar circumstances: they hired some lawyers and filed a lawsuit. They filed their lawsuit in federal District Court in Kansas — thereby ceding the NCAA the home court advantage. In their complaint, they alleged that the NCAA salary cap was a form of price fixing made illegal by federal antitrust law. Then they made a motion for summary judgment on the issue of liability, arguing that the rule is illegal “per se” so no trial was necessary.

The NCAA mounted a vigorous full-court defense. The NCAA argued that the salary cap had to be tested under the more lenient “rule of reason” rather than the “per se” rule; and it argued that the cap is reasonable and therefore legal.

Judge Kathryn Vratil agreed with the NCAA that the “rule of reason” should be applied, rather than the

“per se” rule. In most cases, price fixing — which includes salary fixing — is illegal per se under the anti-trust laws. But in *NCAA v. Board of Regents* (ELR 6:4:3), the NCAA persuaded the Supreme Court that NCAA rules should be tested under the “rule of reason.”

Despite the NCAA’s home court advantage, and despite Judge Vratil’s agreement that the more lenient “rule of reason” should be applied to the salary restriction, the NCAA’s defense fell short of proving that the salary restriction was reasonable. And thus the judge has granted the coaches’ motion for summary judgment as to liability.

Ordinarily, the “rule of reason” requires an elaborate economic analysis and therefore a trial. But sometimes, “the rule of reason may be applied ‘in the twinkling of an eye’”; and this was “surely one such case.” The NCAA had argued that the salary restriction was pro-competitive because it would enable schools to

stay in the black so they could continue to provide inter-collegiate athletics. But the judge rejected this argument, because the market for coaching services is different from the market for college sports; and pro-competitive justifications must apply to the same market in which the restraint is found, “not to some other market.” Moreover, for the purpose of the coaches’ motion, the judge assumed “that cost-cutting measures are needed, that amateurism and competitive equity should be maintained, and that retaining a coaching position for an entry-level coach benefits both coaches and NCAA member institutions.” Nevertheless, Judge Vratil ruled that the NCAA had “not demonstrated the necessary link” between these objectives and the rule that restricted coaches’ salaries. This was so, because nothing in the salary restriction rule prohibited schools from spending the money they saved as a result of the rule on

the salaries of their head coaches or two assistant coaches or in other ways.

The NCAA did seem to have two powerful precedents in its defensive playbook: *Board of Regents v. NCAA*, 561 P.2d 499 (Okla. 1977), and *Hennessey v. NCAA*, 564 F.2d 1136 (5th Cir. 1977). Both of these cases dealt with the antitrust legality of an NCAA rule that limited the *number* of football and basketball coaches Division I schools could employ; and both decisions upheld the legality of that rule. As a matter of anti-trust law, the issue addressed in these two earlier decisions was quite similar to the one presented in this case. But Judge Vratil noted that these cases were decided in 1977, “well before the Supreme Court issued its opinion in [*NCAA v.*] *Board of Regents*” in 1984. As a result, these two cases were no longer persuasive, because the later Supreme Court decision “clarified that the burden of proof in an antitrust case is somewhat

different” from the burden of proof used in one of the cases, and because in light of the Supreme Court decision, the other case had given “undue emphasis” to the “NCAA’s stated good intentions.”

Law v. National Collegiate Athletic Association, 902 F.Supp. 1394, 1995 U.S.Dist.LEXIS 13589 (D.Kan. 1995) [ELR 18:2:10]

Implied covenant of good faith and fair dealing does not apply to agreement by which Asylum Records obtained right from Third Story Music to market Tom Waits recordings in return for guaranteed payments plus royalties; California appellate court affirms dismissal of lawsuit filed by Third Story alleging Asylum breached agreement by refusing to

license reuse of recordings when Waits refused to approve proposed licenses

Back in the 1970s, Tom Waits entered into a singer/songwriter agreement with Third Story Music pursuant to which Waits wrote and recorded several songs. Eventually that agreement expired, and Waits and Third Story went their separate ways. In the meantime, Third Story had entered into an agreement with Asylum Records which gave Asylum the right to manufacture and sell those Waits recordings as well as the right to license others to do so. In addition, that agreement specifically provided that “at [its] election” Asylum could “refrain from any or all of the foregoing.” In return, Asylum promised certain guaranteed payments to Third Story and promised to pay royalties based on Asylum’s sales of Waits recordings and any licenses issued to

others. Asylum made the payments required of it, and all was “without controversy until 1993.”

In that year, an “affiliate” of Third Story known as Bizarre/Straight Records decided to compile and sell a new album of previously released Waits recordings, including four then owned by Asylum. Bizarre/Straight sought a license from Asylum and was told that it could have one, but only if Waits personally approved the deal. Waits refused, so Asylum declined to issue the license.

Third Story then sued, alleging that Asylum had deprived it of benefits under their contract (apparently referring to royalties) when it “wrongfully interjected” the requirement that Waits approve the license. (Third Story claimed that Waits refused, because he wanted to “maximize profit” on music he created *after* his contract with Third Story expired.) Since the contract between Third Story and Asylum did not require Asylum to issue

licenses — indeed, since it gave Asylum the right to “refrain” from doing so — Third Story’s breach of contract case was based on the assertion that the contract contained an implied covenant of good faith and fair dealing that required Asylum to maximize Third Story’s royalties; and it was that covenant Asylum breached by refusing to issue a license to Bizarre/Straight.

The trial court granted Asylum’s motion to dismiss for failure to state a claim; and the California Court of Appeal has affirmed.

Third Story argued that when one party to a contract is given the power to exercise discretion — like the discretion to “refrain” from doing something — that power must be exercised in good faith, and that Asylum had not acted in good faith when it permitted Waits to decide whether a proposed license was acceptable. The appellate court agreed that *if* Asylum had been obligated to pay *only* royalties to Third Story, the law would have

imposed an implied covenant requiring Asylum to use good faith in deciding whether to issue licenses. In this case, however, Asylum also was obligated to make guaranteed payments, regardless of whether or not royalties were earned; and for that reason, the implied covenant of good faith does not apply. “Courts are not at liberty to imply a covenant directly at odds with a contract’s express grant of discretionary power except in those relatively rare instances when reading the provision literally would, contrary to the parties’ clear intention, result in an unenforceable, illusory agreement. In all other situations where the contract is unambiguous, the express language is to govern, and ‘no obligation can be implied . . . which would result in the obliteration of a right expressly given under a written contract.’”

The court acknowledged that “The guaranteed payments involved do not appear to be large in relation to what might be earned from the music of a successful

recording artist. But unless the consideration given was so one-sided as to create an issue of unconscionability, the courts are not in a position to decide whether legal consideration agreed to by the parties is or is not fair.” (Asylum had agreed to pay Third Story \$8,800 a year for several years, and then a \$50,000 minimum plus \$100,000 to \$150,000 for each new Waits album.) Here, said the court, Third Story “was free to accept or reject the bargain offered [by Asylum] and cannot look to the courts to amend the terms that prove unsatisfactory.”

Third Story Music, Inc. v. Waits, 41 Cal.App.4th 798, 48 Cal.Rptr.2d 747, 1995 Cal.App.LEXIS 1277 (1995) [ELR 18:2:12]

Dismissal of producer Adam Kidron s civil conspiracy suit against international distribution company is

affirmed on appeal, in case arising from Kidron's exclusion from production of syndicated television series Catwalk

It's the kind of case that fuels the all-too-frequent allegation that Hollywood steals ideas for movies and television programs whenever it can. British producer Adam Kidron came to the United States in the early 1990s with a music background and some TV program concepts. Among these was an idea for a program to be called "Catwalk" about a multiracial group of kids who form a band and seek fame and fortune in the music business.

Kidron's enthusiasm for the concept was shared by Franklin/Waterman Productions, and it and Kidron entered into a joint venture agreement pursuant to which he was to be a producer of the program. In due course, Columbia Pictures TV agreed to finance and syndicate

the program domestically and the Movie Acquisition Corporation (MAC) agreed to distribute it internationally. Before the show got on the air, however, Kidron and Franklin/Waterman had a falling out, and Kidron was excluded from further participation in the series' production.

Kidron responded with a lawsuit in California state court. He asserted a number of theories, including fraud, against Franklin/Waterman and Columbia; and he alleged that MAC had participated in a civil conspiracy against him. The lawsuit went to trial. At the conclusion of the presentation of Kidron's evidence, Superior Court Judge David Workman granted MAC's motion for a non-suit and dismissed the case as to it. Judge Workman did so, because he "found that Kidron's evidentiary showing was insubstantial as to MAC's involvement in the Franklin/Waterman scheme."

Kidron appealed, but the California Court of Appeal has affirmed. In a lengthy opinion by Judge Fred Woods, the appellate court reviewed the evidence against MAC in detail, and concluded that the trial judge had properly dismissed the case against MAC, because the evidence did not prove that MAC had participated in a civil conspiracy. Under California law, in order to prevail with his civil conspiracy claims against MAC, Kidron would have had to prove three things: that MAC knew about Franklin/Waterman's alleged scheme to defraud Kidron of his rights to "Catwalk"; that MAC intentionally joined Franklin/Waterman in the scheme; and that MAC did so for the purpose of injuring Kidron. The appellate court's review of the record led it to conclude that "Kidron failed to make this showing at trial."

Among other things, MAC did not know of the dispute between Kidron and Franklin/Waterman before MAC agreed to distribute the program internationally.

And as matters developed, MAC never did distribute the program — in part precisely because the dispute between Kidron and Franklin/Waterman prevented Franklin/Waterman from providing MAC with chain-of-title documentation showing that it had clear ownership of the series, as the MAC distribution agreement required. (Indeed, as MAC pointed out, and as the appellate court noted, MAC was sued for breach of contract by Franklin/Waterman in a separate case on account of MAC’s refusal to distribute “Catwalk.” Thus, between that case and Kidron’s, “MAC found itself in the position of being sued simultaneously for performing — and not performing — its obligations under the Distribution Agreement.”)

Editor’s note: Kidron did not emerge from his case empty-handed — not by a long shot. Although the trial judge dismissed the case as against MAC, it went to the jury against other defendants; and the jury

returned a \$53 million verdict — \$31 million in compensatory damages and \$22 million in punitive damages. The trial judge denied defense motions that he set aside the verdict, and judgment in that amount was entered. The judge's order denying these motions has not been published. (The rulings of California Superior Court judges are never published officially, and very rarely published at all — unlike the rulings of New York trial court judges which are frequently published.) The appellate court's ruling in the portion of the case involving MAC does *not* address any of the issues involved in the \$53 million judgment against other defendants.

Kidron v. Movie Acquisition Corp., 40 Cal.App.4th 1571, 47 Cal.Rptr.2d 752, 1995 Cal.App.LEXIS 1219 (1995) [ELR 18:2:12]

Playboy wins summary judgment in copyright infringement action against corporation that manufactured and sold CD-ROMs containing images of photos scanned from magazine and against corporation's president and shareholder

A federal District Court in Florida has granted partial summary judgment (on the issue of liability) to Playboy Enterprises in a copyright infringement suit against a corporation that manufactured and sold almost 10,000 CD-ROM disks containing images scanned from photographs published in *Playboy* magazine, and against the corporation's president and shareholder individually.

Apparently, the defendants' primary defense was that the copyrights to most of the scanned photographs had been registered only as part of Playboy's registration of "collective works" containing the photographs, and thus the defendants questioned whether Playboy

owned the copyrights to the individual photographs themselves. In fact, Playboy does own the copyrights to the individual photographs, and proved that it did by submitting an affidavit from the magazine's Photographic Rights and Permission Administrator so stating. Moreover, some copyright registrations were for individual photographs rather than collective works.

The corporation's president and shareholder also was held liable for infringement, individually. Judge Kenneth Ryskamp ruled that the president and shareholder was personally liable under the doctrine of vicarious liability, because he had the ability to supervise his corporation's infringing activities and because he had a direct financial interest in those activities. The president and shareholder also was personally liable as a result of his personal involvement in the corporation's infringing activity, because he authorized the corporation's production, advertising and sale of the infringing CD-

ROMs as well as the corporation's purchase of the infringing images or files on them.

Editor's note: Playboy has become the “point man” in the battle against digital copyright infringement. In addition to this case, Playboy was the successful plaintiff in the first copyright case involving infringements in cyberspace, *Playboy v. Frena* (ELR 16:4:10). Fortunately for copyright owners, Playboy seems to pick its cases carefully and does a thorough job with them. It's 2-for-2 in these cases so far, and is making good case law that will benefit other copyright owners in the entertainment industry as well as itself.

Playboy Enterprises, Inc. v. Starware Publishing Corp.,
900 F.Supp. 433, 438, 1995 U.S. Dist. LEXIS 14616,
14614 (S.D. Fla. 1995) [ELR 18:2:13]

California appellate court affirms \$3.3 million judgment in favor of Elke Sommer against Zsa Zsa Gabor and her husband, on account of defamatory statements published in German magazine and newspaper

Actress Elke Sommer has prevailed in a defamation case against Zsa Zsa Gabor and Gabor's husband Frederic Von Anhalt, arising out of defamatory statements made by Gabor and Von Anhalt and published in the German periodicals *Freizeit Revue* and *Bild*. A judgment totaling \$3.3 million dollars was entered in Sommer's favor by a California trial court and has been affirmed by the California Court of Appeal. The judgment was based on a jury verdict of \$2 million in general damages and \$1.3 million in punitive damages. In affirming the judgment, the appellate court rejected arguments that the trial court had erred by applying

California rather than German defamation law, that the damages were excessive, that the offending statements were nonactionable opinions, and that errors had been made in instructing the jury.

The issue of greatest potential interest to others in the entertainment industry was the question of whether German rather than California law should have been applied in deciding whether Sommer had a cause of action at all, and if so, the extent of her recoverable damages. This issue arose because *Freizeit Revue* is a German weekly magazine with a circulation of 1.3 million, only 310 of which are in Southern California; and *Bild* is a German daily newspaper with a circulation of 3.9 million *in Germany* (the number sold in California is not indicated in the court's decision). Moreover, Gabor and Von Anhalt were interviewed in Germany for the article published in *Freizeit Revue*, though the interview for the *Bild* article was conducted in California. Unfortunately,

other cases will not receive guidance from the appellate court's treatment of this issue, because the result turned on facts unique to this case. The Court of Appeal ruled that the trial court had not erred in applying California law, because Gabor and Von Anhalt had not adequately raised the issue at trial, had not adequately shown that German law would not have recognized Sommer's defamation claim or denied her general and punitive damages, and had not adequately shown that Germany had an interest in having its law applied to a dispute among parties who all reside in the United States.

The appellate court also rejected Gabor and Von Anhalt's argument that the damages awarded against them were excessive. That argument amounted to an attack "on the substantiality of the evidence to support the damage award" — an attack the appellate court viewed as "nothing more than challenges to the credibility of witnesses and the inferences to be drawn from their

testimony.” The court disagreed with these challenges, because it found substantial evidence in the record of damages suffered by Sommer as a result of the defamatory statements. The court also decided that Gabor and Von Anhalt had not established the absence of evidence to support the jury’s finding of “malice” and thus punitive damages.

The appellate court found that statements made by Gabor and Von Anhalt were false statements of fact, not mere opinion. And finally, the court rejected all of Gabor and Von Anhalt’s arguments concerning the manner in which the jury had been instructed.

Sommer v. Gabor, 40 Cal.App.4th 1455, 48 Cal.Rptr.2d 235, 1995 Cal.App.LEXIS 1210 (1995) [ELR 18:2:14]

Removal of artist Philip Pavia's Ides of March sculpture from Hilton Hotel lobby, and redisplay of two of its four sections at the Hippodrome Parking Garage, violates New York Arts & Cultural Affairs Law but not federal Visual Artists Rights Act, federal court rules

When students of Shakespeare or Plutarch think of “The Ides of March,” they think of the day that Julius Caesar was slain. But when students of art think of “The Ides of March,” they think of a large bronze sculpture by artist Philip Pavia that once was displayed in the lobby of the Hilton Hotel on Sixth Avenue in New York City. The sculpture consisted of three large standing forms and one smaller form lying on its side; and critics and the media considered it a “noteworthy work of art.” It had been commissioned by Hilton expressly for the hotel lobby. But in 1988, it was removed from the

lobby, and two of its four sections were then redisplayed at the Hippodrome Parking Garage on Avenue of the Americas. This was done without Pavia's consent; and as far as he is concerned, it was an act of betrayal equal in wickedness to that which resulted in Caesar's death.

In response to this betrayal, Pavia filed a lawsuit in federal court in New York City against the owners of the Hilton and the Hippodrome, alleging they violated the New York Arts and Cultural Affairs Law and the federal Visual Artists Rights Act. The defendants thought otherwise, and moved to dismiss. Judge Robert Sweet has granted the defendants' motion in part — but only in part. Judge Sweet permitted Pavia to proceed with the portion of his case that asserts rights under the New York Arts and Cultural Affairs Law, for damages resulting from the display of two sections of "The Ides of March" since February 23, 1992 (though not before). On the other hand, Judge Sweet has dismissed the

portion of Pavia's case that asserts rights under the federal Visual Artists Rights Act.

New York's Arts and Cultural Affairs Law prohibits the public display of a work of fine art that has been altered or modified if damage to the artist's reputation is likely to result. There is, however, a three-year statute of limitations on any claim an artist might bring under this law. Since "The Ides of March" was removed from the Hilton in 1988, and Pavia didn't file suit until 1995, the defendants argued that the case was barred by the three-year limitations period. However, Judge Sweet reasoned that the law prohibits the "display" of an altered or modified work of art, and thus he ruled that the three-year period begins anew each day an altered work is displayed. This is why the judge refused to dismiss the case, and permitted it to proceed, with respect to the display of "The Ides of March" since February 23, 1992 which was three years to the day before suit was filed.

The federal Visual Artists Rights Act became effective in 1991 — three years after the sculpture was removed from the Hilton and redisplayed at the Hippodrome — and that law provides that it does not provide rights for acts that occurred before its effective date. This federal Act — unlike the New York law — does not prohibit “displays”; it prohibits acts of “distortion” or “modification.” In this case, the act of distortion or modification of which Pavia complains occurred in 1988, before the effective date of the federal Act. And thus the federal Act does not give Pavia any rights he could assert in this case, Judge Sweet ruled.

Pavia v. 1120 Avenue of the Americas Ass'n, 901 F.Supp. 620, 1995 U.S. Dist. LEXIS 13963 (S.D.N.Y. 1995) [ELR 18:2:15]

Illinois appellate court affirms dismissal of breach of contract and fraud lawsuit complaining that pay-per-view cablecast of *The Judds: Their Final Concert Live* was only two hours long rather than three hours as advertised

Millions of their fans were saddened when The Judds announced that Naomi would be retiring and that their 1991 concert tour would be their last. So great was the demand to see their final concert, it was carried on cable television as a pay-per-view event. Ronald and Helen Smith of Chicago apparently were among The Judds' fans; and when Prime Cable of Chicago advertised the availability of "The Judds: Their Final Concert Live" — a three-hour show for \$24.95 — the Smiths placed an order. Imagine then their disappointment when The Judds' pay-per-view final concert turned out

to be only two hours long, rather than the three that had been advertised.

The Smiths didn't bottle up their disappointment or suffer it silently or alone. Instead, they filed a class-action lawsuit in Illinois state court, alleging breach of contract and several varieties of fraud. Their disappointment, however, has been compounded, twice-over, because the trial court dismissed their case and the appellate court has affirmed.

The courts did not really decide whether cable or pay-per-view companies can advertise a three-hour show but then deliver one that lasts only two hours. Instead, the case turned on what some might call a "technicality" of Illinois law, or a strategic error on the part of the Smiths.

Concerned that their cable TV service might be cut off, or their credit rating tarnished, if they failed to pay their cable TV bill immediately when due, the

Smiths in fact paid the full \$24.95 for the concert as soon as they were billed — 17 days *after* they had viewed the concert and 3 days *after* they had filed their suit. In Illinois, there is a legal principle known as the “voluntary payment doctrine.” Under this doctrine, “money voluntarily paid under a claim of right to the payment, and with knowledge of the facts by the person making the payment, cannot be recovered by the payor solely because the claim was illegal.” Under this doctrine, since the Smiths voluntarily paid the bill for the concert, they could not recover what they had paid, even if the cable company’s claim for \$24.95 was illegal. The Smiths argued that certain exceptions to the doctrine — like payment under duress — applied here. But the Illinois courts were unpersuaded.

The Smiths’ various fraud claims were dismissed as well, because all of them required the Smiths to show they had suffered damage as a result of the allegedly

fraudulent sale of a two-hour concert that had been advertised as three-hour concert. By virtue of the voluntary payment doctrine, the Smiths had no damages, and thus no fraud claims.

Smith v. Prime Cable of Chicago, 276 Ill.App.3d 843, 658 N.E.2d 1325, 1995 Ill.App.LEXIS 913 (1995) [ELR 18:2:15]

New York court denies motion to dismiss breach of contract and emotional distress lawsuit filed by Ithaca College professor, arising from his demotion following investigation which led College to conclude that professor had plagiarized portions of his book *Evolution of Film Styles*

Plagiarism claims have wrecked havoc on the lives and careers of those accused. Now, one of the accused — Ithaca College professor Peter Klinge — has struck back with a lawsuit against the College and his two accusers. He alleges that the College breached his employment contract, and that his accusers have caused him emotional injury. And while the court has not yet ruled on the merits of his case, it has refused a defense motion to dismiss it.

Klinge teaches in the Cinema department of the School of Communication at Ithaca College and is the author of the 1983 book *Evolution of Film Styles*. The book had been “a major positive factor” in his promotion to full professor in 1985. In 1993 — ten years after the book was published — two other professors in the Cinema department submitted a memo to the school's Dean in which they asserted that Klinge's book makes “extensive use of text from several books and articles,

often in haec verba, and sometimes in close paraphrase,” and “None of these borrowings were acknowledged by [Klinge] in his book.” The Dean and the Provost reviewed the matter and concluded that “indeed, Klinge was guilty of plagiarism.” As a result, he was demoted from full professor to associate professor, his salary was reduced, and was given restricted academic duties.

Klinge sued; and the College moved to dismiss. Justice Walter Relihan (of the New York Supreme Court for Tompkins County) has denied the motion with respect to Klinge’s breach of contract claim against the College and with respect to his infliction of emotional distress claim against the two professors.

The breach of contract claim was allowed to proceed, because Klinge’s contract incorporated by reference the Ithaca College Faculty Handbook; and that Handbook provided for tenured professors to be

terminated for misconduct but it did not provide for the lesser penalty of demotion. Thus, Klinge was permitted to pursue a breach of contract claim for the difference between his former salary and his reduced salary.

Klinge also was permitted to pursue his emotional distress claim against the two professors who had accused him of plagiarism — not on account of their memo to the Dean, which Judge Relihan said was privileged even if false and defamatory. Rather, Klinge was permitted to continue with his suit against accusers, because Klinge alleged that they had spread news to the campus community concerning their plagiarism claims and had given a copy of their memo to the campus newspaper. If true, they would have committed the tort of infliction of emotional distress, Judge Relihan ruled, because: “Among a community of scholars . . . [an allegation of plagiarism] is calculated to destroy a career. Accordingly . . . an unprivileged publication of a charge

of plagiarism in an academic community, if false or made with reckless indifference to its truth, meets the threshold test . . . and, a jury could find, amounts to ‘extreme and outrageous’ conduct [which defeats the privilege].”

The judge did dismiss a third claim for prima facie tort against the College. This claim had been based on the disclosure of the plagiarism allegations to the campus community and newspapers. But the judge found that no evidence had been presented to show that the College or any of its officers had been responsible for the disclosure.

Klinge v. Ithaca College, 634 N.Y.S.2d 1000, 1995 N.Y.Misc.LEXIS 532 (1995) [ELR 18:2:16]

INTERNATIONAL CASES

British Court of Appeal rules that English law, rather than New York law, applies to license agreement between CBS and George Bernard Shaw's executor, authorizing CBS to produce movie and Broadway musical versions of My Fair Lady based on Shaw's play Pygmalion

CBS is locked in a hotly-contested lawsuit with the executor of the will of the late George Bernard Shaw, and the trustees of a trust created under that will, concerning royalties allegedly due from CBS on account of its production and exploitation of movie and Broadway musical versions of Lerner and Loewe's "My Fair Lady" — a musical that is based on Shaw's play "Pygmalion." The executor and trustees claim that CBS owes

them \$1.7 million in royalties — a claim that CBS has challenged on “every conceivable point.”

Among the points at issue is the question of what period of limitations should be applied to the claim, because if royalties are shown to be due the executor and trustees, the limitation period will determine how many years’ worth of royalties CBS will have to pay. The executor and trustees contend that the license agreement is governed by English law and that its 12-year limitation period applies. CBS on the other hand contends the agreement is governed by New York law and that its 6-year period applies.

CBS argued that New York law should govern, because the license agreement concerned the production of a musical for the Broadway stage and a movie that was filmed in California, and because CBS does business in New York. The U.K. Court of Appeal disagreed, however. In a decision by Judge Peter Gibson, the Court

of Appeal ruled that even though the musical was first staged on Broadway and the movie was produced in California, the agreement between Shaw's executor and CBS is a "worldwide license, and . . . royalties have been derived from a large number of jurisdictions." Moreover, the court said, "It was a license affecting a work by a British author of which the original copyright was governed by English law, and it was vested in an executor and trustee created by an English statute on trusts governed by English law. Of central importance is the place for payment of the royalties. In the absence of any direction by the . . . Trustee it would be the duty of the licensees to pay the royalties to the . . . Trustee in England in sterling. . . . In my judgment, the principal agreement had no real or substantial connection with New York law or the law of any other of the states of the United States of America. On the contrary it was . . .

‘centered in London’.” For these reasons, “English law should apply to the rights conferred thereunder.”

Green v. CBS Inc., U.K. Court of Appeal (1995) (available in LEXIS Enggen Library, Cases File) [ELR 18:2:17]

British court strikes radio broadcaster's statutory license affirmative defense in copyright infringement action brought by Phonographic Performance Limited (the company that licenses broadcasts of sound recordings in the United Kingdom), because broadcaster failed to properly comply with formalities required by British copyright law

Formalities — some might say “technicalities” — are an important feature of modern copyright laws

around the world, not simply in the United States. This has been made clear in a recent case in Britain in which a radio broadcaster unsuccessfully attempted to take advantage of a “statutory license” found in that country’s copyright law. The license at issue in the case is one that permits broadcasters and cable program services to transmit copyright-protected sound recordings, without having a *negotiated* license authorizing them to do so, provided certain formalities are complied with first.

In this case, the broadcaster had sought a negotiated license from Phonographic Performance Limited (PPL) which is the company that represents record companies for the purpose of issuing broadcast licenses in the United Kingdom. But the broadcaster and PPL did not reach an agreement. The broadcaster transmitted sound recordings nevertheless, thinking that it had satisfied the formalities required for a “statutory license.” PPL contended that the broadcaster had not satisfied

those formalities, and thus PPL sued for copyright infringement. When the broadcaster asserted the statutory license as an affirmative defense, PPL made a motion to strike that defense. And Judge Jacob, of the U.K. Chancery Division, has granted that motion.

Judge Jacob explained that “one of the hoops” through which a broadcaster “must pass” in order to claim the statutory license is giving two separate notices to PPL. First the broadcaster must notify PPL of the broadcaster’s intention to exercise its statutory license rights. Then, after receiving PPL’s proposal for a license fee (or the passage of a reasonable period), the broadcaster must give PPL another notice that indicates the date on which the broadcaster intends to begin exercising that right and the fee it intends to pay.

Here, the broadcaster had negotiated with PPL and had received a draft of a license agreement that contained a proposed license fee that was more than the

broadcaster was willing to pay. When negotiations broke down, the broadcaster did not send the first notice; it only sent the second notice. Nonetheless, the broadcaster argued that the prior negotiations, and PPL's draft license, satisfied the first notice requirement or "ought to be treated" as though they did.

Judge Jacob responded, "I have some sympathy with the defendant." "But" he added "it seems to me that the language of the [statutory license] provision is against it," because that language clearly requires two notices. Moreover, the two-step procedure made some sense to the judge. If PPL and a broadcaster are unable to agree on a license fee, the fee ultimately to be paid is one set by the Copyright Tribunal. In the meantime, however, the statutory license requires broadcasters to pay the fee demanded by PPL in response to the broadcaster's first notice, unless that fee "is unreasonably high." "So," Judge Jacob explained, "although the

licensing body may have originally in voluntary negotiations sought some other sums, Parliament has provided it with a final opportunity of setting a particular figure in response to a clear notice of an intention to exercise the statutory license. The body may well have asked for more earlier: licensing bodies try for as much as they can and are not always reasonable. But it is not what is said in voluntary negotiations which counts. The yardstick of reasonableness set by the Act is the proposal [in response to the broadcaster's first notice] and none other."

Editor's note: The formalities required by this provision of British copyright law will seem unfamiliar to American lawyers for two reasons. First and foremost, U.S. copyright law does not give sound recording copyright owners an exclusive right to broadcast their records, even though broadcasts are public performances. (The only right in U.S. copyright law that comes

close is the very narrow right created by the “Digital Performance in Sound Recordings Act of 1995” (*ELR* 17:6:3); and the statutory license created by that act is nothing like the statutory license found in British copyright law.) Second, while U.S. copyright law does contain several “compulsory” licenses which authorize the use of certain types of copyright-protected works in return for license fees set (or adjusted) by Copyright Royalty Arbitration Panels (rather than by negotiations), the procedures followed for establishing license fees under U.S. law are nothing like those followed under British law for setting statutory license fees.

Phonographic Performance Limited v. Retail Broadcast Services Limited, [1995] FSR 813 (available in LEXIS Intlaw Library, Engcas File) [ELR 18:2:17]

WASHINGTON MONITOR

Copyright Office publishes list of 2,700 foreign works whose owners have filed Notices of Intent to Enforce Restored Copyrights

The United States Copyright Office has published a list of foreign works whose owners have filed Notices of Intent to Enforce Restored Copyrights. The foreign works in question are those that once were in the public domain in the United States, but whose copyrights were restored on January 1, 1996, as a result of Congress' enactment of a new section 104A of the Copyright Act as required by the Uruguay Round Agreements Act (URAA). (See, Lionel S. Sobel, "Back from the Public Domain: Congress Restores Copyrights to Many Foreign Works" (*ELR* 17:3:3))

All eligible works had their U.S. copyrights restored automatically, and the owners of those copyrights are able to enforce their restored copyrights immediately against infringers who have never relied on the public domain status of those works. However, the owners of restored copyrights are not permitted to enforce them against “reliance parties” — defined as those who were already using the work or had acquired copies of the work before the new law was enacted — unless and until the copyright owner files a Notice of Intent to Enforce a restored copyright in the Copyright Office or serves such a Notice on the individual reliance party. Thus, the owners of restored copyrights are able to enforce their rights against “reliance parties” only by filing a Notice of Intent to Enforce copyright, or by personally serving such a Notice on reliance parties.

The new law requires the Register of Copyrights to publish in the Federal Register lists of restored works

for which Notices of Intent to Enforce Restored Copyrights have been filed. (These lists are to be published every four months for a period of two years, commencing May 1, 1996.) The law then permits reliance parties to continue to use those works for a 12-month period beginning on the date of publication in the Federal Register of the list identifying the restored work. (If a Notice of Intent is both filed with the Copyright Office and served on a reliance party, the 12-month period for continued use begins on the date of publication or the date of service of the Notice, whichever date is earlier.)

The first list of restored copyrights for which Notices of Intent have been filed with the Copyright Office has been published in the Federal Register. The list contains the titles of approximately 2,700 works for which such Notices have been filed. In addition, complete Notices are available for inspection and copying in the Copyright Office where they have been indexed by

the English title, the foreign title, the name of the author, and the name of the copyright owner. The list also is available via the Internet at three addresses: the World Wide Web address is: <http://lcweb.loc.gov/copyright>; the gopher address is: [marvel.loc.gov](gopher://marvel.loc.gov); and the telnet address is: [locis.loc.gov](telnet://locis.loc.gov). The Copyright Office will perform a search of these records upon the receipt of a written request and the statutory search fee of \$20.00 per hour or fraction thereof. Also, for a fee, the Copyright Office will also make copies of the Notices or the list identifying restored works and their owners.

Copyright Restoration of Works in Accordance with the Uruguay Round Agreements Act, Library of Congress, Copyright Office, 61 Federal Register 19371 (May 1, 1996) [ELR 18:2:19]

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