BUSINESS AFFAIRS

The $90 Million Question: How Big is Michael Ovitz's Severance Package from Disney?

by Lionel S. Sobel

"The most powerful man in Hollywood." That's the way Michael Ovitz was described, repeatedly, less than a year and a half ago. Now he's out of show business entirely, at least for a while. To some, Michael Ovitz is a twentieth-century Icarus — the mythical youth who flew so high on wings of wax that the heat of the sun melted his wings, and he plunged to his death in the sea.

Ovitz gathered his legendary power as the head of Creative Artists Agency. He parlayed his skills as a

talent agent *extraordinaire* into the role of an international corporate deal maker, brokering Matsushita's acquisition of MCA and Sony's takeover of Columbia. He was offered the top jobs at MCA and Sony Entertainment, but didn't take either, reportedly because his compensation and control demands were too rich for both companies' owners.

Then last year, Ovitz did something that shocked many in the entertainment industry: he accepted an offer to become President of The Walt Disney Company — the company's number *two* job under Chairman Michael Eisner — for a salary of $1 million a year. Though $1 million is more than Eisner himself gets in salary, it is certainly less than Ovitz earned while at CAA. Graef Crystal, an executive compensation consultant to Disney in connection with Ovitz's contract, has written in *Slate* (12/21/96) that "rumor had it" that Ovitz "was pulling down between $25 million and $35 million per year."

And Eisner's compensation package includes more than just his salary; in 1995, Eisner also received $8 million in cash bonuses and $6 million in restricted stock.

Of course, Ovitz's compensation package at Disney includes more than salary too. Just how much more became the subject of intense speculation, when on December 12, 1996, Disney announced that Ovitz would be leaving the company on January 31, 1997. The announcement was made just 14 months after Ovitz became Disney's President, and with more than three and a half years still left on what was to have been a five-year employment contract.

It has been reported that Ovitz will receive some $90 million from Disney when he leaves the company. And these reports ignited a fire-storm of controversy. Headlines in the *Los Angeles Times* used phrases like "Ovitz Severance Leaves Industry Reeling" (12/14/96) and "Rank and File Are Smarting Over Ovitz's

Severance Deal" (12/20/96). The controversy is hardly surprising: $90 million is a staggering amount — for a lifetime of work, let alone 14 months. It is equivalent to 6.5% of Disney's net income for all of 1995. And it is much more than other entertainment industry executives received when they left their companies, after many years of service. According to the *Wall Street Journal* (12/16/96), Frank Biondi received $25 million from Viacom while Michael Schulhof got $20 to $40 million from Sony. Indeed, if Ovitz does get $90 million, Disney will have paid Ovitz *alone* as much as Time Warner paid *three* of its departing executives *combined*: Michael Fuchs ($20 million), Douglas Morris ($30 million) and Robert Morado ($40 million).

So far, Disney has not commented on what if anything Ovitz will be paid. The $90 million figure did *not* come from the company. However, unidentified "sources close to the company" told the *Los Angeles*

Times that Ovitz would be paid "what's called for in his contract" (12/20/96). That contract is a publicly available document. (It's Exhibit 10(e) to the Form 10-K that Disney filed with the Securities and Exchange Commission for the company's fiscal year ending September 30, 1995.) And a full-text copy of it is appended to this article.

Under the terms of the contract, Ovitz actually may be entitled to $90 million or so when he leaves the company. Or he may be entitled to nothing. Whether it's one figure or the other depends on the circumstances that led to his departure, or perhaps more accurately, to how those circumstances are characterized.

Here's why Ovitz may be entitled to so much money. The contract anticipated that it might be terminated, and thus the contract provides that if it is terminated *under certain circumstances* (more about these in a moment), Ovitz would be entitled to receive four

things: stock options to purchase 3 million Disney shares; his million-dollar salary for each remaining year of the contract; a "bonus" of $7.5 million for each remaining year; and a $10 million "termination payment" (paragraphs 5(c) and 11(c)). (This is a somewhat simplified description of what the contract actually provides, but for present purposes, it's close enough. To further simplify the calculations, I've rounded off to an even four the number of years left on his contract, and I've disregarded certain "present value" discounts the contract authorizes Disney to make. The effect of these simplifications is to overstate the amount Ovitz may be entitled to receive. While the overstatement may come to hundreds of thousands of dollars, perhaps even a few million, it does not change the order of magnitude of the final figure.)

Thus, if the necessary circumstances exist so that Ovitz is entitled to compensation when he leaves, what

he will be entitled to is this: $4 million in salary (at the rate of $1 million a year), plus $30 million in “bonuses” (at the rate of $7.5 million a year), plus the $10 million "termination payment," for a total of $44 million in cash; plus stock options. The stock options give Ovitz the right to buy 3 million Disney shares at their value on October 16, 1995 which was $57 a share. No one knows what those shares will be worth on January 31st, when Ovitz leaves the company; but if they are worth $72 a share (their value the week before Christmas 1996) the option to buy 3 million shares for just $57 a share will be worth a total $45 million. The $44 million in cash plus $45 million in stock profits comes to $89 million.

Ovitz’s right to receive all this depends on the contract being terminated under certain circumstances. That is, the contract does not give him stock options and millions of dollars in cash, simply because he decided to

resign. Indeed, the contract specifically states that if the contract is terminated because of Ovitz's "voluntary resignation . . . without [Disney's] prior written consent," then Ovitz's "rights and [Disney's] obligations hereunder and under all stock options granted in accordance with this Agreement shall forthwith terminate in their entirety. . . ." (Paragraph 11(b)) As Disney's executive compensation consultant put it in *Slate*, "If Ovitz walked out of Disney under his own power, his contract guaranteed him precisely nothing in the way of severance."

Under what circumstances, then, is Ovitz entitled to severance compensation?

Consider first the stock options. His right to buy 3 million shares (at their October 1995 value) is actually a right to buy 1 million shares a year beginning September 30, 1998, *if* he is *still employed* by Disney when the time comes for him to exercise those options. The

contract is quite clear about this. It specifically provides that his right to buy those shares "shall not vest" if his employment by Disney "shall have terminated for any reason whatsoever more than three months prior to such scheduled vesting date" (paragraph 5(b)). Ovitz's employment is scheduled to end on January 31, 1997 — a full 20 months before September 30, 1998 — so unless the contract provides an alternate basis for his right to stock options, he will not be entitled to any.

As it happens, the contract does provide an alternate basis: if his employment is terminated under circumstances that constitute a "Non-Fault Termination," his option to buy 3 million shares becomes "immediately exercisable in its entirety upon such termination" (paragraph 5(d)).

Ovitz's right to receive cash compensation when he leaves Disney also depends on whether there has been a "Non-Fault Termination." This is so because the

contract gives Ovitz the right to receive the rest of his salary and "bonuses" for the contract's remaining years plus the "termination payment" only "If a Non-Fault Termination of [Ovitz's] employment with [Disney] shall occur" (paragraph 11(c)).

The question then is whether Ovitz is leaving Disney under circumstances that constitute a "Non-Fault

The phrase "Non-Fault Termination" is specifically defined in the contract itself, and it means only these five things:

1. termination by Disney "without cause (i.e., in a manner which shall constitute a breach of this Agreement by [Disney])" (paragraph 5(d));

2. termination by Disney because of Ovitz's death or disability (paragraph 5(d));

3. termination by Ovitz because he is not retained as President and a director (paragraphs 5(d) and 12(a));

4. termination by Ovitz because he has been assigned duties "which are materially inconsistent with his position as President" (paragraphs 5(d) and 12(b)); and

5. termination by Ovitz because Disney failed to give him stock options, reduced his salary, made him ineligible for bonuses, or failed to pay him (paragraphs 5(d) and 12(c)).

There has been no suggestion that the contract was terminated under any of the circumstances described in reasons 1, 2, 3 or 5.

Reason 4, however, is a possibility. In order to characterize the termination as a "Non-Fault Termination," Ovitz may be able to say that he was assigned duties which were "materially inconsistent" with his position as President. *If* Disney were inclined to resist Ovitz's severance compensation claims, it could of course contend that his assigned duties were perfectly

consistent with his position as company President. Those duties are not defined in the contract itself, except to say that Ovitz was to "devote his full time and best efforts" to the company and was to report to Eisner.

Outside the entertainment business, the duties of a company "President" may be clearly established by industry custom. In the entertainment business, however, it may be more difficult to show what presidents customary do. Some studios have several "presidents" — one for each division; and within the movie division, one for production, another for distribution, and a third for marketing. Disney itself has eight or nine divisions, each with its own chief executive or two, each of whom is the "President" or "Chairman" of his division.

As a result, if Ovitz's severance package were to become the subject of a dispute, resolving that dispute could require an inquiry into what understandings Ovitz and Eisner had concerning the duties Ovitz would be

performing. The two men must have had lengthy talks on that subject before Ovitz decided to leave CAA and give up being "the most powerful man in Hollywood." Was Ovitz promised a different job than the one he got? Or did Ovitz hope he would be able to build his job into something more than what he was promised? These questions may turn out to be entirely academic. But who knows: Jeffrey Katzenberg left Disney in 1994, and a dispute over his severance package degenerated into a still-pending lawsuit that casts a shadow over the company to this very day.

Lon Sobel is the Editor of the Entertainment Law Reporter and a professor at Loyola Law School in Los Angeles where he teaches Entertainment Law and other subjects. He and his wife Carol are shareholders in The Walt Disney Company, though they do not own nearly

as many shares as Michael Ovitz will own, if Mr. Ovitz exercises his stock options. [ELR 18:7:3]

[Full Text]

EMPLOYMENT AGREEMENT
DATED AS OF OCTOBER 1, 1995
BETWEEN
THE WALT DISNEY COMPANY
AND
MICHAEL S. OVITZ

MICHAEL S. OVITZ ("EXECUTIVE") and THE WALT DISNEY COMPANY, a Delaware corporation ("COMPANY"), hereby agree as follows:

1. TERM

The term of Executive's employment by Company under this Agreement shall commence on and as of October 1, 1995 and shall expire on September 30, 2000 (the "TERM"), unless earlier terminated as hereinafter provided.

2. TITLE AND DUTIES

During the Term, Executive shall be employed by Company as its President. As President, Executive shall report to Company's Chairman and Chief Executive Officer. Executive shall devote his full time and best efforts exclusively to the Company; provided, however, that the foregoing shall not preclude Executive from engaging in charitable and community affairs, managing his personal passive investments and continuing his current board membership with Ziff-Davis Holdings, Inc., provided that none of such activities or managing shall interfere with, or be inconsistent with, the performance

of his duties hereunder. Executive shall perform such duties, which shall not be inconsistent with his position as President of Company, as are assigned to him from time to time by the Chairman and Chief Executive Officer of Company, and any other duties undertaken or accepted by Executive. Company agrees to use its best efforts to cause Executive to be elected to the Board of Directors of Company (or its successor in interest), when a seat on the Board becomes available, and to nominate Executive as a member of the management slate at each annual meeting of stockholders during his employment hereunder at which Executive's director class comes up for election. Executive agrees to serve on the Board if elected.

3. SALARY

Executive shall receive a salary of $1,000,000 per annum during the term hereof. Salary payments shall be

made in equal installments in accordance with Company's then prevailing payroll policy.

4. BONUS

For each full year of the Term completed by Executive, Executive will be eligible for an annual discretionary bonus which will be determined by the Compensation Committee of the Board of Directors. Pursuant to Company's applicable bonus plan as in effect from time to time, such bonus may be determined according to criteria intended to qualify under Section 162(m) of the Internal Revenue Code, as amended (the "CODE").

5. STOCK OPTIONS

Executive shall be granted two stock options (individually, "OPTION A" and "OPTION B") to purchase an aggregate of 5,000,000 shares of common stock of

Company pursuant to Company's 1990 Stock Incentive Plan and related rules or pursuant to a stock option plan hereinafter adopted by Company having terms no less favorable to Executive than the 1990 Stock Incentive Plan and related rules (the applicable plan and rules pursuant to which such options shall be granted being hereinafter referred to as the "PLAN") in accordance with, and subject to, the following:

OPTION A:

(a) The exercise price of Option A shall be equal to the fair market value (determined in accordance with the applicable provisions of the Plan) of Company's common stock on the date of grant, which date shall be October 16, 1995.

(b) Pursuant to Option A Executive shall have the right to purchase 3,000,000 shares, subject to the terms and conditions hereof and of the Plan, and such right shall vest in increments of 1,000,000 shares on

September 30 of each year commencing September 30, 1998; provided, however, that, notwithstanding the foregoing, any portion of Option A scheduled to vest on a scheduled vesting date shall not vest on such scheduled vesting date (or at any time thereafter) if Executive's employment by Company pursuant to this Agreement shall have terminated for any reason whatsoever more than three months prior to such scheduled vesting date.

(c) In the event that Executive's employment shall be terminated and such termination shall constitute a Non-Fault Termination (as defined in subparagraph (d) below), then the vesting schedule of Option A shall be accelerated and Option A shall become immediately exercisable in its entirety upon such termination.

(d) Option A shall expire on the earlier of ten years from the date of grant or 24 months after termination of Executive's employment with Company; provided, however, that notwithstanding the foregoing, in the event

that Executive's employment with Company shall be terminated without cause (i.e., in a manner which shall constitute a breach of this Agreement by Company), by reason of death or total and permanent disability pursuant to Section 11(a)(i) or (ii) hereof, or Executive shall validly terminate his employment pursuant to Section 12 hereof (any of the foregoing being herein referred to as a "NON-FAULT TERMINATION"), Option A shall expire on the later of September 30, 2002, or 24 months after the date of the Non-Fault Termination (but in no event later than ten years from the date of grant.)

(e) Except as expressly provided herein, Option A shall be subject to all of the standard terms and provisions of the Plan (i.e., those terms and provisions which are automatically applicable to any stock option granted under the Plan in the absence of special action or specification to the contrary with respect to such stock option by the Compensation Committee of the Board of

Directors of the Company (which Committee currently administers the Plan)), including without limitation, such modifications and/or substitutions of the Plan and the options granted thereunder as are effected in connection with the acquisition by Company of Cap Cities/ABC, Inc.

OPTION B:

The terms and provisions of Option B shall be identical to the terms and provisions of Option A in all respects except as follows:

(f) Pursuant to Option B Executive shall have the right to purchase 2,000,000 shares of Company's common stock, subject to the terms and conditions hereof and of the Plan, and such right shall vest in increments of 1,000,000 shares on each of September 30, 2001 and September 30, 2002; provided, however, that notwithstanding the foregoing, any portion of Option B scheduled to vest on a scheduled vesting date shall not vest on

such vesting date (or at any time thereafter) if Executive's employment with Company shall have terminated for any reason whatsoever more than three months prior to such scheduled vesting date.

(g) Notwithstanding any other term or provision of the Plan or this Agreement, under no circumstances shall Option B vest or become exercisable prior to October 1, 2000, and in the event that Executive's employment with Company shall terminate prior to such date for any reason whatsoever, Option B and all rights and claims of any nature related thereto shall thereupon irrevocably terminate in their entirety without further action by any party; after such date Option B shall vest in accordance with its terms if, and only if, Executive shall have entered into, prior to the earlier of the first scheduled vesting date of Option B or the date of any event occurring on or after October 1, 2000 which would give rise to accelerated vesting if the conditions of this subparagraph

were met, an agreement with Company (which shall be acceptable to Company in its sole and unfettered discretion or which shall have been entered into pursuant to a Qualifying Offer (as hereinafter defined in Section 10 hereof) to continue his employment with Company until at least September 30, 2002; provided, however, that notwithstanding the foregoing, if Executive is actually employed by Company on a scheduled vesting date of Option B, the increment of Option B scheduled to vest on such date shall vest in accordance with its terms.

The parties hereto acknowledge that in order to implement certain provisions of Section 5(d) hereto relating to the continued exercisability of Option A for more than 24 months after a Non-Fault Termination, an amendment to the 1990 Stock Incentive Plan is required or a new Plan permitting such continued exercisability must be adopted. Company will implement such amendment or adopt such new Plan, subject, however, in each

case to receipt by Company of approval by the shareholders of Company. Accordingly, all of the provisions of Option A referred to in Section 5(d) above providing for exercisability beyond 24 months after termination of Executive's employment with Company shall be subject to receipt by Company of such shareholder approval, and in the event such shareholder approval shall not have been obtained within 18 months from the date hereof or there shall have been a Non-Fault Termination at any time prior to receipt by Company of such approval, Company and Executive (or his estate) shall enter into good-faith negotiations with respect to alternative compensation for Executive.

6. BENEFITS AND PERQUISITES

Executive shall be entitled to receive the benefits and perquisites currently made available to the Chairman and Chief Executive Officer of Company.

7. REIMBURSEMENT FOR EXPENSES

Executive shall be expected to incur various business expenses customarily incurred by persons holding like position, including but not limited to traveling, entertainment and similar expenses, all of which are to be incurred by Executive for the benefit of Company. Subject to Company's policy regarding the reimbursement and non-reimbursement of such expenses (which policy does not necessarily provide for reimbursement of all such expenses but which shall be applied to Executive in a manner consistent with the application of such policy to the Chairman and Chief Executive Officer of Company), Company shall reimburse Executive for such expenses from time to time, at Executive's request, and Executive shall account to Company for such expenses.

8. PROTECTION OF COMPANY'S INTERESTS

(a) During the term of Executive's employment by Company, Executive will not compete in any manner, directly or indirectly, whether as a principal, employee, consultant, agent, owner or otherwise, with Company or any affiliate thereof, except that the foregoing will not prevent Executive from holding at any time less than 5% of the outstanding capital stock of any company whose stock is publicly traded.

(b) To the extent permitted by law, all rights worldwide with respect to any and all intellectual or other property of any nature produced, created or suggested by Executive during the term of his employment or resulting from his services shall be deemed to be a work made for hire and shall be the sole and exclusive property of Company. Executive agrees to execute, acknowledge and deliver to Company, at Company's request, such further documents as Company finds appropriate to evidence Company's rights in such property. Any

confidential and/or proprietary information of Company or any affiliate thereof (including, without limitation, any information relating to the identities, capabilities, compensatory and contractual arrangements and/or general personnel data of employees of Company and its affiliates to which Executive has access) shall not be used by Executive or disclosed or made available by Executive to any person except as required in the course of his employment, and upon expiration or earlier termination of the term of this Agreement, Executive shall return to Company all such information that exists in written or other physical form (and all copies thereof) under his control. Without limiting the generality of the foregoing, Executive acknowledges signing and delivering to Company The Walt Disney Company and Associated Companies Confidentiality Agreement and Statement of Policy Regarding Conflicts of Interest and Business Ethics and Questionnaire Regarding Compliance and he

agrees that all terms and conditions contained therein, and all of his obligations and commitments provided for therein, shall be deemed, and hereby are, incorporated into this Agreement as if set forth in full herein. The provisions of this Section 8(b) shall survive the expiration or earlier termination of this Agreement.

9. SERVICES UNIQUE

Executive recognizes that his services hereunder are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated for in damages, and in the event of a breach of this Agreement by him (particularly, but without limitation, with respect to the provisions hereof relating to the exclusivity of his services and the provisions of Section 8 hereof), Company shall, in addition to all other remedies

available to it, be entitled to equitable relief by way of injunction and any other legal or equitable remedies.

10. CONTRACT TERMINATION PAYMENT

In the event that Company shall not have made a Qualifying Offer (as hereinafter defined) to Executive by July 1, 2000, and no other agreement between Executive and Company relating to the extension of Executive's employment shall have been entered into by September 30, 2000, Executive shall be entitled to receive, after Executive's:

(a) having given Company written notice of its failure to deliver a Qualifying Offer; and

(b) not having received such Qualifying Offer from Company within five business days from the delivery of such notice to Company, a contract termination payment of $10,000,000 (the "TERMINATION PAYMENT") from Company. Such Termination Payment shall be due

by the earlier of 30 days after the date that such payment shall not be subject to Section 162(m) of the Code or four months after the end of the last fiscal year of the Company during which Executive was employed by Company, but in no event shall such Termination Payment be due earlier than October 1, 2000, except as provided in Section 11(c) hereof. The term "QUALIFYING OFFER" shall mean a written offer of employment to Executive which (i) shall be for a period of not less than five years from October 1, 2000, (ii) shall include the types of compensation contained in this Agreement, (iii) shall constitute a reasonable offer taking into account the compensation to Executive provided for in this Agreement, the Company's financial and operating performance during the term of this Agreement and any other then-current circumstances relevant to the determination of Executive's compensation by Company for the period specified in clause (i) above, (iv) shall not

contain any terms or provisions which reduce Executive's title or duties as stated herein, and (vii) shall state that it is irrevocable for 30 days from the date of delivery thereof. Notwithstanding any other term or provision hereof, Executive shall be entitled to receive the Termination Payment in accordance with Section 11(c) hereof in the event of a Non-Fault Termination of Executive's employment for any reason other than death (it being understood that in the event of Executive's death prior to payment of the Termination Payment, Company shall have no obligation under any circumstances to make a Termination Payment to Executive's estate or any other person or entity).

In the event that the parties shall disagree as to whether or not an offer timely made by Company in accordance with the foregoing constitutes a Qualifying Offer, the parties shall submit such disagreement to arbitration by a qualified individual executive

compensation expert of national reputation who shall not have had dealings with either party during the preceding five years. Upon failure to agree upon the selection of the arbitrator, each party shall submit a panel of three qualified arbitrators, the other party may strike two from the other's list, and the arbitrator shall be selected by lot from the remaining two names. The arbitrator shall have the authority only to determine (i) whether the matter is arbitrable under the conditions of this Agreement and (ii) whether or not the offer made by the Company is a Qualifying Offer.

11. TERMINATION

(a) Company shall have the right to terminate Executive's employment with Company under the following circumstances:

(i) Upon death of Executive.

(ii) Upon notice from Company to Executive in the event of an illness or other disability which has totally and permanently incapacitated him from performing his duties for six consecutive months as determined in good faith by the Board of Directors.

(iii) For good cause (A) immediately upon notice from Company if Company shall reasonably determine that the conduct or cause specified in such notice is not curable; or (B) upon thirty days' notice from Company, if Company shall determine that the conduct or cause specified in such notice is curable, unless Executive has, within ten days after the date such notice has been given by Company, commenced in good faith to cure the conduct or cause specified in such notice and has completed such cure within 30 days following the date of such notice. Termination by Company of Executive's employment for "good cause" as used in this Agreement shall be limited to gross negligence or malfeasance by

Executive in the performance of his duties under this Agreement or the voluntary resignation by Executive prior to expiration of the Term (other than pursuant to a valid termination of employment by Executive in accordance with Section 12 hereof) as an employee of Company without the prior written consent of Company.

(b) If Executive's employment is terminated pursuant to Section 11(a)(iii) above, Executive's rights and Company's obligations hereunder and under all stock options granted in accordance with this Agreement shall forthwith terminate in their entirety, except that, notwithstanding the foregoing, (i) the expiration date of any stock options granted in accordance with this Agreement shall be 30 days after the date of termination pursuant to Section 11(a)(iii), and (ii) to the extent that any term or provision of this Agreement shall expressly state that any such right or obligation shall survive

termination of the Agreement pursuant to Section 11(a)(iii) hereof, it shall so survive.

(c) If a Non-Fault Termination of Executive's employment with Company shall occur, Executive or his estate shall be entitled to receive a lump sum payment equal to the sum of (x) the present value (based on Company's then current cost of borrowing for the remainder of the scheduled Term) of 100% of Executive's base salary for the balance of the term of this Agreement (the percentage of Executive's salary to be paid in such lump sum after such present value calculation being referred to herein as the "PRESENT VALUE PERCENTAGE") and (y) of an amount equal to $7,500,000 multiplied by the product of (A) the Present Value Percentage (expressed as a decimal) and (B) the number of fiscal years of Company in the Term not yet completed at the time of termination. The sum of clauses (x) and (y) above is hereinafter referred to as the "NON-

FAULT PAYMENT". In addition, in the event of a Non-Fault Termination for any reason other than death, Executive shall be entitled to receive the Termination Payment. Company may purchase insurance to cover all or any part of its obligations set forth in the preceding sentence, and Executive agrees to take a physical examination to facilitate the obtaining of such insurance. The Non-Fault Payment and Termination Payment (if applicable) shall be made to Executive (or to his estate, if applicable) not later than the earlier of (i) 30 days after the date that such payment shall not be subject to Section 162(m) of the Code, or (ii) four months after the end of the last fiscal year of Company during which Executive was employed by Company.

(d) Whenever compensation is payable to Executive hereunder during a time when he is partially or totally disabled and such disability would entitle him to disability income or to salary continuation payments from

Company according to the terms of any plan now or hereafter provided by Company or according to any Company policy in effect at the time of such disability, the compensation payable to him hereunder shall be inclusive of any such disability income or salary continuation and shall not be in addition thereto. If disability income is payable directly to Executive by any insurance company under an insurance policy paid for by Company, the amounts paid to him by said insurance company shall be considered to be part of the payments to be made by Company to him pursuant to this Section 11(d) and shall not be in addition thereto.

12. TERMINATION BY EXECUTIVE

Prior to the expiration of the Term, Executive shall have the right to terminate his employment under this Agreement upon 30 days' notice to Company given within 60 days following the occurrence of any of the

following events, provided that Company shall have 20 days after the date such notice has been given to Company in which to cure the conduct or cause specified in such notice:

(a) Executive is not elected or retained in accordance with Section 2 hereof as President (reporting to Company's Chairman and Chief Executive Officer) and a director of Company.

(b) Company shall assign duties to Executive hereunder which are materially inconsistent with his position as President.

(c) Company shall fail to grant Executive's stock options provided for herein (other than to the extent provided in the last paragraph of Section 5 hereof) or shall reduce his salary or shall deny Executive eligibility for annual discretionary bonuses, or Company shall fail to make any compensation payment required hereunder.

13. FCC PROVISION

Executive acknowledges that he has been provided by Company with a copy of Section 508 of the Federal Communications Act of 1934, as amended, relating in part to receiving or paying consideration for product identification in television programs, that he is familiar with the provisions thereof and that he will fully comply therewith during the term of this Agreement. Without limiting the foregoing, however, and whether or not Section 508 is applicable to his activities, Executive agrees that he will not, without Company's prior written consent, accept any compensation or gift from any person, firm or corporation (other than Company) where such compensation or gift is, or may appear to be, in consideration of his acting in a particular manner in relation to the business of such person, firm or corporation.

14. EXCLUSIVE REMEDY

Executive acknowledges and agrees that the Non-Fault Payment and Termination Payment (if applicable) payable in the event of a Non-Fault Termination, and the provisions relating to any Non-Fault Termination set forth in Section 5 hereof regarding stock options (including, if applicable, any alternative provisions which might be subsequently agreed to in accordance with Section 5 hereof) are fair and reasonable and shall constitute Executive's sole and exclusive remedy, in lieu of all rights and claims of Executive, at law or in equity, for a Non-Fault Termination, including, expressly, for termination of his employment by Company in a manner which shall constitute a breach of this Agreement, and for all other rights and claims of any nature whatsoever related to any such termination, and Executive hereby irrevocably waives all rights and claims of any nature whatsoever in respect of any such termination except for such Non-Fault Payment, Termination Payment (if

applicable) and provisions relating to stock options. Such payments shall not be limited or reduced by amounts Executive might earn or be able to earn from any other employment or ventures during the remainder of the scheduled Term following a Non-Fault Termination.

15. ASSIGNMENT

Company may assign this Agreement or all or any part of its rights hereunder to any entity that succeeds to all or substantially all of Company's assets or that holds, directly or indirectly, all or substantially all of the capital stock of Company or that is otherwise a successor in interest to Company generally, and this Agreement shall inure to the benefit of, and be binding upon, such assignee or successor in interest. This Agreement is personal to Executive and Executive may not, without the express written permission of Company, assign or

pledge any rights or obligations hereunder to any person, firm, corporation or other entity.

16. NO CONFLICT WITH PRIOR AGREEMENTS

Executive represents and warrants to Company that neither his commencement of employment hereunder nor the performance of his duties hereunder conflicts with any contractual commitment on his part to any third party or violates or interferes with any rights of any third party.

17. CERTAIN PAYMENTS

The parties believe that the payments to Executive hereunder do not constitute "Excess Parachute Payments" under Section 280G of the Code. Notwithstanding such belief, if any payment or benefit under this Agreement is determined to be an "Excess Parachute Payment" Company shall pay Executive an additional

amount ("Tax Payment") such that (x) the excess of all Excess Parachute Payments (including payments under this sentence) over the sum of excise tax thereon under Section 4999 of the Code and income tax thereon under Subtitle A of the Code and under applicable state law is equal to (y) the excess of all Excess Parachute Payments (excluding payments under this sentence) over income tax thereon under Subtitle A of the Code and under applicable state law.

18. KEY MAN INSURANCE

Company shall have the right to secure, in its own name or otherwise, and at its own expense, life, disability, accident or other insurance covering Executive and Executive shall have no right, title or interest in or to such insurance. Executive shall assist Company in procuring such insurance by submitting to reasonable examinations and signing such applications and other

instruments as may be required by the insurance carriers to which application is made for any such insurance.

19. POST-TERMINATION OBLIGATIONS

After the expiration or earlier termination of Executive's employment hereunder for any reason whatsoever, Executive shall not either alone or jointly, with or on behalf of others, either directly or indirectly, expressly or impliedly, whether as principal, partner, agent, shareholder, director, employee, consultant or otherwise, at any time during a period of two years following such expiration or termination, solicit in any manner whatsoever the employment or engagement of, either for his own account or for any other person, firm, company or other entity, any person who is employed by Company or any affiliated entity, whether or not such person would commit any breach of his contract of employment by reason

of his leaving the service of Company or any affiliated entity.

20. ENTIRE AGREEMENT; AMENDMENTS; WAIVER, ETC.

(a) This Agreement supersedes all prior and/or contemporaneous agreements and/or statements, whether written or oral, concerning the terms of Executive's employment, and no amendment or modification of this Agreement shall be binding unless set forth in a writing signed by Company and Executive. No waiver by either party of any breach by the other party of any provision or condition of this Agreement shall be effective unless in writing and signed by the party effecting the waiver, and no such waiver shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time.

(b) Nothing herein contained shall be construed so as to require the commission of any act contrary to law, and wherever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation, the latter shall prevail, but in such event the provision of this Agreement affected shall be curtailed and limited only to the extent necessary to bring it within legal requirements.

(c) This Agreement does not constitute a commitment of Company with regard to Executive's employment, express or implied, other than to the extent expressly provided for herein. Upon expiration of the Term, it is the contemplation of both parties that Executive's employment with Company shall cease unless an employment agreement with respect to such subsequent period shall have been entered into, and that neither Company nor Executive shall have any obligation to the other with respect to continued employment. In the

event that Executive's employment continues for any period of time following the stated expiration of the Term, unless and until agreed to in a new subscribed written document, such employment or any continuation thereof is "at will," and may be terminated without obligation at any time by either party's giving notice to the other.

(d) Company shall have the right but not the obligation to use Executive's name or likeness for any publicity or advertising purpose during the term of Executive's employment with Company. Company is under no obligation to accord Executive credit for any production.

(e) All payments required to be made to Executive hereunder, whether during the term of his employment hereunder or otherwise, shall be subject to all applicable federal, state and local tax withholding laws.

(f) This Agreement shall be governed by and construed in accordance with the laws of the State of

California. In the event of any controversy or claim by either party hereunder the prevailing party in any final and legally binding adjudication (as to which all periods for the filing of any appeal have expired) with respect to such controversy or claim shall be entitled to reimbursement from the losing party for reasonable attorney's fees and costs and for all other reasonable expenses of such adjudication.

21. NOTICES

All notices that either party is required or may desire to give the other shall be in writing shall be effective (i) upon personal delivery or (ii) three business days after deposit of same with the United States Postal Service for delivery by certified mail, return receipt requested, addressed to the party to be given notice as follows:

To Company: 500 South Buena Vista Street
Burbank, California 91521

Attn: Chairman and Chief Executive Officer

To Executive: Michael S. Ovitz
The Walt Disney Company
500 South Buena Vista Street
Burbank, California 91521

With copies to: Robert L. Adler, Esq.
Munger, Tolles & Olson
355 South Grand Avenue, 35th Floor
Los Angeles, California 90071

and Michael A. Rubel, Esq.
Del, Rubel, Shaw, Mason & Derin
2029 Century Park East, Suite 3910
Los Angeles, California 90067-3025

Either party may by written notice designate a different address for giving of notices. The date of mailing of any such notices shall be deemed to be the date on which such notice is given.

22. HEADINGS

The headings set forth herein are included solely for the purpose of identification and shall not be used for the purpose of construing the meaning of the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

/s/ MICHAEL S. OVITZ
Michael S. Ovitz

THE WALT DISNEY COMPANY
By: /s/ MICHAEL D. EISNER
Title: Chairman and Chief and Chief Executive Officer
[ELR 18:7:5]

IN THE NEWS

Major League Baseball owners and players ratify new collective bargaining agreement

After four years of bitter strife, Major League Baseball owners and players have finally reached an accord and have ratified a new collective bargaining agreement. The agreement covers the baseball seasons from 1996 (retroactively) through the year 2000 and contains an option that could extend it another year through 2001 as well.

Major League Baseball's previous collective bargaining agreement expired at the end of 1993. Though the owners and players began negotiating a new one in March 1994, those negotiations did not bear fruit. In fact, as baseball fans so well remember, the 1994 season abruptly ended that August when the players went on

strike. The strike wiped out 75 regular-season days as well as the 1994 World Series. Moreover, on the eve of the 1995 season, it looked as though it would be played by "replacement players," rather than members of the Major League Baseball Players Association. But that did not happen. Instead, the National Labor Relations Board charged the Major League Baseball club owners with committing unfair labor practices. And when the NLRB sought and was granted a temporary injunction against the owners (*ELR* 16:12:11, 17:3:14), the Players Association suspended its strike and returned to the field. The strike, however, was expensive for owners and players alike: it resulted in revenue losses that have been estimated at $800 million to $1 billion. Perhaps for that very reason, the entire 1995 and 1996 seasons were played without interruption, even though no agreement was in place.

The new collective bargaining has something for everyone — players, owners and fans.

The players got an increase in their minimum salaries, up from $109,000 to $150,000 next season. They also got time-in-service credit for the 75 playing days they missed during the 1994 season. Since the right to become a free agent depends on time-in-service, these 75 days gave immediate free agent status to 12 players who otherwise would have had to wait another year to become free agents.

The owners hoped to get a salary cap, similar in concept to the NBA salary cap. But they didn't. Instead, in an effort to increase the financial parity among Major League teams, the owners got three things: a "luxury tax," a player salary tax, and increased revenue sharing. Revenues from these sources will be pooled and then divided among small market teams.

The "luxury tax" (which will be collected during the 1997, 1998 and 1999 seasons only) will be imposed on the five teams having the biggest aggregate player payrolls. In 1997, the "tax" will be 35% of those teams' aggregate payrolls in excess of $51 million. The player salary tax will be 2.5% of the players' individual salaries. And high revenue teams will contribute a portion of their local broadcast and ticket sale revenues to the pool.

In all, it has been estimated that the pool for small-market teams will amount to some $70 million. The Yankees — which have the biggest payroll in baseball — will contribute about $5.8 million to the pool. And the Expos — one of the small-market beneficiaries of the plan — will draw about $5.5 million from it.

The new agreement gives fans two things: regular season interleague play; and at least four years of strike-free major league baseball. [ELR 18:7:12]

NBA and Chicago Bulls settle antitrust lawsuit over WGN telecasts of Bulls games

The Chicago Bulls and the National Basketball Association have settled their six-year-old lawsuit over the number of Bulls games WGN-TV may televise each season. According to news accounts, the settlement will permit WGN to broadcast as many games as it wishes to viewers in the Chicago area, and as many as 15 of those games may be retransmitted to cable-TV viewers in other parts of the country.

WGN is a local over-the-air television station in Chicago. It also is a "superstation," and that is what triggered the dispute between the NBA and the Bulls in first place. "Superstations" are television stations whose over-the-air signals are retransmitted by satellite to

cable-TV systems around the country, and then by cable to cable-TV subscribers. This means that WGN broadcasts of Bulls games can be seen in cities outside of Chicago — cities that have their own NBA teams. As a result, the Bulls compete for viewers with other NBA teams in what are supposed to be the exclusive territories of those teams.

To control such competition, the NBA adopted a rule in 1990 that allowed NBA teams to license no more than 20 games a season for superstation telecast. Before the rule was adopted, the Bulls and WGN had entered into an agreement permitting WGN to carry 25 games a season. As a result, the Bulls and WGN sued the NBA contending the 20-game limit violated federal antitrust law. Judge Hubert Will agreed and enjoined enforcement of the rule. (*ELR* 12:12:11) The NBA appealed, but the Court of Appeals affirmed, in an opinion by

Judge Frank Easterbrook; and the Supreme Court denied an NBA request that it hear the case. (*ELR* 14:10:6)

The NBA then sought judicial approval for a different rule — the "Superstation Same Night Rule" — which prohibited *team*-licensed superstation telecasts of NBA games on the same night as *league*-licensed telecasts of NBA games on Turner Network Television. The NBA contended that this rule was exempt from antitrust scrutiny by virtue of the Sports Broadcasting Act. But Judge Will was not persuaded the rule was exempt, and so denied an NBA motion for partial summary judgment. (*ELR* 15:3:6)

Having lost twice in its efforts to limit or prevent superstation telecasts outright, the NBA tried a different tack. It decided to impose a "superstation fee or tax" on team-licensed national telecasts, including superstation telecasts, in order to prevent "free-riding." The NBA sought Judge Will's approval for such a fee, arguing that

it would require the Bulls to pay no more than the fair market value of superstation broadcasts and thus would be lawful. The judge finally agreed with the NBA and ruled that some sort of fee would be reasonable and should be upheld, though he cautioned the league that a superstation fee should "not denigrate the consumers' interests by increasing the costs and decreasing the output of games nationwide." Judge Will left it to the parties to negotiate a reasonable fee.

The recently reached settlement does not impose flat fees based on the mere fact of superstation telecasts. Rather, it reportedly provides that the parties will share the revenues generated by commercials shown during cable retransmissions of WGN telecasts. [ELR 18:7:12]

WASHINGTON MONITOR

Librarian of Congress announces distribution of $500 million in compulsory license fees paid by cable-TV companies for retransmission of non-network television programs broadcast by distant stations during 1990, 1991 and 1992; also initiates proceedings for distribution of 1993 and 1994 royalties

The Librarian of Congress has announced how $500 million in royalties will be divided and distributed to the owners of copyrights in television programs that were broadcast by independent television stations and then retransmitted by cable-TV companies to subscribers in other cities. These royalties were paid by cable-TV companies during 1990, 1991 and 1992, under the

"compulsory cable license" provision of the Copyright Act (section 111).

The compulsory cable license gives cable-TV companies the right to retransmit distant TV station signals in return for a license fee set by law, rather than by negotiation. Cable companies pay these license fees to the Copyright Office which then divides and distributes them among the owners of copyrights to the retransmitted programs (including the owners of the copyrights to the soundtrack music in those programs).

When copyright owners disagree among themselves concerning how these fees should be divided — as they usually do — the Copyright Act provides a procedure for making that decision. Originally, the Copyright Act provided that the decision would be made by a full-time five-member Copyright Royalty Tribunal, on the basis of evidence submitted by copyright owners in trial-like hearings. Later, Congress reduced the size of

the Tribunal to three full-time members. But in 1993, Congress eliminated the Tribunal altogether, and replaced it with an arbitration scheme that calls for the ad hoc appointment of temporary arbitration panels. (*ELR* 15:11:28) These panels are called CARPs, which is an acronym for Copyright Arbitration Royalty Panels. (Since the panels make decisions concerning copyright royalties, they should have been called Copyright Royalty Arbitration Panels — but the acronym for that name was problematic.) CARPs are administered by, and report their findings and recommendations to, the Register of Copyrights who in turn makes a recommendation to the Librarian of Congress who then decides how the royalties are to be divided.

When the Copyright Royalty Tribunal was legislated out of existence in 1993, it had begun — but not finished — work on a proceeding to divide cable royalties paid for 1990. The Copyright Office decided that

CARPs could not just take over the Tribunal's work-in-progress; so the 1990 proceeding was redone from scratch. In an effort to achieve some efficiency, the 1990 proceeding was combined with those for 1991 and 1992 — and that is one of the reasons the royalty pot has reached $500 million.

The 1990-1992 CARP hearing generated an enormous record; it came to more than 12,000 pages of transcripts and several thousand pages of briefs and arguments. When the Panel delivered its report, however, it satisfied none of the participants. Instead, they petitioned the Librarian of Congress to set aside or at least modify the Panel's decision, arguing that the Panel had acted "arbitrarily" or "contrary to the . . . Copyright Act."

In all, the parties' petitions complained about nine separate aspects of the Panel's decision. The Register of Copyrights did not agree with all nine complaints, but

she did recommend modifications to some of the Panel's conclusions; and the Librarian of Congress has adopted the Register's recommendations in full. The issues raised by the parties' petitions were, for the most part, fact-specific. They included complaints that the Panel had not made certain arithmetic calculations correctly.

Perhaps the most interesting issue involved the question of whether owners of copyrights to programs broadcast by television stations affiliated with the Fox network were entitled to a share of the cable royalties. This issue arose because cable royalties are paid only in connection with the cable retransmission of non-network programming. Thus, if Fox programs are "network" programs, the owners of their copyrights would receive nothing. Despite the fact that Fox is called a network in everyday conversion — and was during 1990, 1991 and 1992 — the Panel decided that Fox programs were non-network programs for cable royalty purposes; and the

Register of Copyrights concluded that the Panel's decision on this issue was not arbitrary or contrary to the Copyright Act. This decision was based on the fact that during those years, Fox did not supply a substantial part of the programming its affiliates broadcast each day; and as a result, Fox was not considered a "network" for the purpose of determining how much cable companies had to pay in royalties in order to retransmit signals broadcast by Fox affiliates. In essence then the question was whether Fox could be non-network for "pay-in" purposes but network for "pay-out" purposes. The Panel answered this question "no," and decided it should treat Fox the same way for both purposes: as a non-network. This meant that producers of Fox programs are entitled to a portion of the 1990-1992 royalties.

The largest share of the royalty pot will go to producers of syndicated television programs and movies, followed by sports teams, with smaller shares going to

music publishers, television broadcasters, the Public Broadcasting Service, producers of religious programming, and producers of programs broadcast by Canadian television stations.

The exact dollar amount each group of copyright owners will receive still requires calculation. This is because the $500 million pot is itself divided into three unequal parts: basic fees paid by all cable companies; a "penalty fee" paid by cable companies that carry distant signals that could not have been carried under FCC rules that were eliminated in 1980; and a "syndex surcharge" paid by cable companies that retransmit syndicated programs that could not have been retransmitted under other FCC rules that were eliminated in 1980. Each group of copyright owners will be receiving a somewhat different percentage of the royalties from each of these three parts of the total pot. Also, the percentages each

group will receive for 1990 differ slightly from those for 1991 and 1992.

The amount that each individual copyright owner will receive also remains to be resolved. Copyright owners within each group will attempt to agree among themselves on the amount each will receive from their group's share. If they are able to do so, no further CARP proceedings will be necessary. If the copyright owners within a group are unable to agree, however, a "Phase 2" proceeding will be initiated to subdivide that group's share of 1990-1992 royalties among its members.

Separately, the Copyright Office has asked copyright owners to indicate whether CARP proceedings will be necessary to divide and distribute cable royalties paid for 1993 and 1994. Proceedings to divide 1995 cable royalties have not yet begun.

Distribution of 1990, 1991 and 1992 Cable Royalties, Copyright Office, Library of Congress, 61 Fed.Regis. 55653 (Oct. 28, 1996); *Ascertainment of Controversy for 1993 and 1994 Cable Royalty Funds*, Copyright Office, Library of Congress, 61 Fed.Regis. 49799 (Sep. 23, 1996) [ELR 18:7:14]

RECENT CASES

In suit against Disney by owner of copyright to Bambi book, federal appellate court holds that book is not in public domain in United States, even though it was first published in Germany without a copyright notice, and U.S. copyright was not renewed 28 years after first publication; also, subsequent publication in Germany with notice was adequate to

confer U.S. copyright protection, and renewal 28 years after subsequent publication was effective

Bambi "was born in the wooded wilderness of Germany in 1923." Since Bambi's creator was German, he didn't know of the "dangerous conditions lurking in the world of copyright protection under the United States Copyright Act of 1909" — not even the condition that copyright notices be affixed to published works, wherever in the world they were published, if protection was expected in the United States. As a result, when Bambi was introduced to the world by the 1923 publication in Germany of the book *Bambi, A Life in the Woods*, the book did not contain a copyright notice. A few years later, however, in 1926, the book was republished in Germany with a copyright notice of the type then required by U.S. law. The book's copyright was then registered in the United States, and in 1954 — 28

years after its 1926 republication — the U.S. copyright was renewed.

After the copyright was renewed, Disney acquired certain rights to the book and created an animated movie version of it. Sometime thereafter, a disagreement developed between Disney and the owners of the renewal copyright in the book, and the disagreement degenerated into a copyright infringement lawsuit.

As the alleged infringer in the copyright lawsuit, Disney asserted a number of defenses, one of which was a "doomsday" defense: Bambi is in the public domain, Disney argued, because it was first published without notice as then required by U.S. copyright law, or because its U.S. copyright was not renewed when it should have been — 28 years after the book's first publication — but instead was ineffectively renewed three years later which was too late. Federal District Court Claudia Wilken agreed that the renewal had been too late, and

she dismissed the case, ruling that Bambi was indeed in the public domain. (*ELR* 17:1:10)

Now, however, the Ninth Circuit Court of Appeals has reversed. In an opinion by Judge Justin Quackenbush, that court has ruled that the book's first publication in Germany in 1923 without a copyright notice did not put the book in the public domain in the United States, and it has ruled that the 1954 renewal was timely and effective, because the first term of the book's U.S. copyright began to run only when the book was republished in Germany in 1926 with notice.

Judge Quackenbush reasoned that publication in Germany without a copyright notice did not put the book in the public domain in the U.S., because U.S. copyright law has no extra-territorial application, and thus the notice requirement did not apply to the publication of the *Bambi* book in Germany.

Judge Quackenbush similarly reasoned that since the first term of U.S. copyright began only when the book was published with notice, the first term began in 1926 when the book was republished with notice, not in 1923; and thus the copyright was properly renewed in 1954 — 28 years after its 1926 publication.

Editor s note: There is a split of authority on whether works first published outside the United States (before March 1989) had to have copyright notices of the kind then required by U.S. law, in order to be protected in the U.S. (The notice requirement was eliminated for all works published since March 1989.) The preferred view is that foreign-published works did not have to have such notice, for the very reason relied on by Judge Quackenbush: U.S. copyright law does not apply outside the U.S. (When the U.S. joined the Universal Copyright Convention in the mid-1950s, the U.S. Copyright Office took the position that notices had to be

affixed to works first published in other U.C.C. countries, because the U.C.C. itself permitted adhering countries to require notices as a condition for copyright protection. Since *Bambi* was first published in 1923, its status was not affected by the U.C.C.'s notice provisions.) However, the Court of Appeals' decision that Bambi's first term of U.S. copyright began in 1926, when it was republished with notice, rather than in 1923 when it was first published, is unprecedented. Until this decision, the duration of copyright had always been measured from first publication. Hard cases make bad law; and killing off Bambi was, no doubt, a hard thing to do. Ironically, even if Bambi had not been resurrected by this judicial decision, Bambi may have been brought back to life by Congress when it amended section 104A of the Copyright Act as part of the Uruguay Round Agreements Act. (See, "Back from the Public Domain: Congress Restores Copyrights to Many Foreign Works"

by Lionel S. Sobel (*ELR* 17:3:3)) In either event, Disney will now have to shift its emphasis to its contract-based defenses, as this case continues on remand.

Twin Books Corp. v. Walt Disney Co., 83 F.3d 1162, 1996 U.S.App.LEXIS 11462 (9th Cir. 1996) [ELR 18:7:16]

Letter sent by California lawyer to TV network and individual producer, asserting that proposed new series American Bounty Hunters would infringe copyright and trademark owned by lawyer s California-based clients, subjects lawyer s clients to suit in Texas for tortious interference and declaratory relief

In a country as big as the United States, it must happen hundreds — perhaps thousands — of times every day: clients tell their lawyers that their rights are being violated, and lawyers respond by sending out stern demand letters.

This very thing happened early in 1996 when Tradewinds Television and Action Media Group, two California-based television production companies, told their lawyer, Jill Pietrini of the Los Angeles firm Manatt Phelps & Phillips, that copyright and trademark rights they had licensed from Forever Blue Entertainment for a proposed series called "Bounty Hunters" were about to be infringed by another similar series called "American Bounty Hunters."

The offending series was being produced by Bounty-Full Entertainment, a Texas-based company, and was to be broadcast on the UPN network. Ms. Pietrini did what most other lawyers would do under the

circumstances: she fired off two letters asserting her clients' rights. One was mailed to the president of UPN; and the other was sent to Debra Simon, a Houston-resident independent producer under contract to Bounty-Full.

According to Bounty-Full, the letter to UPN had at least part of its intended effect: "UPN became somewhat less enthusiastic about airing [Bounty-Full's] program." So Bounty-Full went to its lawyer, William Spence of the Houston firm of Crady Jewett & McCulley. And he did what lawyers often do under these circumstances: he filed a lawsuit seeking a judicial declaration that Bounty-Full's program does not infringe any copyright or trademark owned by Forever Blue.

Bounty-Full's lawsuit went a step or two further as well. It alleged that Ms. Pietrini's letter had tortiously interfered with Bounty-Full's UPN contract; and it named Ms. Pietrini and Manatt Phelps as co-defendants,

along with Tradewinds and Action Media (and Foreover Blue). Moreover, Bounty-Full's lawsuit was filed in Texas, even though all of those it sued are in California.

Tradewinds and Action Media responded by seeking dismissal of Bounty-Full's lawsuit on the grounds that the letter their lawyer had sent to UPN and Ms. Simon was a privileged communication sent in anticipation of litigation and thus could not give rise to tort liability as a matter of law. Failing that, they sought dismissal on the grounds that the Texas court did not have personal jurisdiction over them and because venue was improper. And failing that, they sought an order changing venue to California. However, Judge Kenneth Hoyt has denied all of these motions.

Judge Hoyt noted that according to an affidavit submitted by Ms. Simon, she was merely an independent producer who had been hired to work for Bounty-Full "on a contract basis," and she had never previously

worked for that company or any of its principals. By contrast, the "privilege" cases relied on by Tradewinds and Action Media all involved letters sent after legal proceedings had begun or were sent to "potential future defendants." "Because the letter in question does not fit into either of these categories, the defendants' motion to dismiss must fail," Judge Hoyt concluded.

The judge also ruled that he has personal jurisdiction over Tradewinds and Action Media because the letter to Simon constituted "sufficient 'minimum contacts,'" Simon will be a key witness, and "Texas clearly has a strong interest in protecting its citizens from torts committed in the state of Texas by nonresident entities or persons" and a "strong interest in protecting its residents from nonresident claims of . . . infringement."

The judge found that venue was proper in Texas, because copyright and trademark infringement causes of

action "arise" wherever the alleged infringer is located. And he declined to change venue to California, because Simon and other witnesses are located in Houston, relevant documents are located there, and many of the events giving rise to the lawsuit happened in Houston.

Editor s note: As big as it is, the United States is a single country; and especially where federal rights are at issue — like copyright and trademark rights — it is not surprising that parties may be forced to litigate outside their home states. In this case, Bounty-Full would have been forced to do so, if Tradewinds and Action Media had not. However, the question of whether the demand letter could give rise to tort liability is more difficult than the decision indicates. The exact nature of Simon's association with Bounty-Full was disputed. Thus, the letter to her may have been a letter to Bounty-Full itself, and if so, it was a letter to a "prospective defendant." Moreover, even if she were simply an

"independent" producer working only on a "contract basis," it is conceivable that she herself might have had copyright or trademark liability if she proceeded to produce "American Bounty Hunters" in its intended format under that title. Judge Hoyt's opinion fails to explain why Simon was not a "potential" defendant too. Perhaps by the time this case is resolved on its merits, the letter will be found to be privileged after all. In the meantime, this decision serves as a important warning: though demand letters are common and often useful, they can have unintended and undesired consequences, for clients and lawyers alike: they can trigger liability, or at least the need to defend — quite possibly in distant and hostile courtrooms. As a result, they should be worded with care, and those to whom they are sent should be selected with equal care. Aggressively worded, widely distributed demand letters are likely to "cost" more than they are worth.

Bounty-Full Entertainment, Inc. v. Forever Blue Entertainment Group, Inc., 923 F.Supp. 950, 1996 U.S.Dist. LEXIS 5498 (S.D.Tex. 1996) [ELR 18:7:17]

Federal District Court refuses to dismiss NFL Properties suit against Dallas Cowboys, complaining of licenses that permit use of Cowboy trademarks in alleged violation of exclusive rights previously assigned to NFL Properties; case is then settled

The success of the National Football League depends on its achieving a delicate balance between the interests of its individual teams and the interests of the NFL as a whole. Over the years, the NFL's attempts to achieve that balance have provoked a number of significant lawsuits concerning, for example, a team's right to

move from one city to another (*ELR* 8:6:13) and a team owner's right to own teams in other sports (*ELR* 3:20:3, 4:19:3).

The latest of these cases involves a team owner's right to license the use of team and NFL trademarks, and to keep the license fees for itself. At the heart of the latest case are licenses issued by Texas Stadium Corporation — the company that owns the stadium in which the Dallas Cowboys play their home games — to American Express, Nike, Pepsi and Dr. Pepper. Texas Stadium Corporation is owned by Jerry Jones who — not coincidentally — also owns the Cowboys themselves, though this fact by itself does not explain why the *stadium* company granted the licenses rather than the *team*. The answer to that question explains why the licenses gave rise to a dispute.

Back in 1982 — long before Jones bought the Cowboys — all of the teams in the NFL created a Trust,

to which they transferred the exclusive right to exploit their trademarks for commercial purposes. The Trust then granted an exclusive license to National Football League Properties, Inc., a corporation owned by the teams, which in turn grants licenses to companies that make or provide a wide variety of goods and services. Many of the licenses granted by NFL Properties are exclusive, in the category of product or service sold by the licensee.

Since the Cowboys had transferred its trademark rights to the Trust and thus to NFL Properties, the Cowboys could not grant trademark licenses itself. So Jones — always on the lookout for additional sources of revenue — decided to have his *stadium* company grant licenses, instead of his team.

According to NFL Properties, the licenses granted by Texas Stadium violate the exclusive rights NFL Properties had previously acquired and thus violated the

exclusive licenses that NFL Properties has issued to many of its licensees. As a result, it filed suit in federal District Court in New York against the Cowboys, Texas Stadium and Jones, alleging several different legal theories including breach of contract, trademark infringement and interference with contract.

Jones of course had anticipated such a claim by NFL Properties. That's why he had Texas Stadium issue the disputed licenses, rather than the Cowboys. That also is the reason the licenses issued by Texas Stadium expressly provide that its licensees may *not* use Cowboy or NFL marks owned by the Trust. Instead, Texas Stadium's licensees are permitted to use only the phrase "Texas Stadium/Home of America's Favorite Team" or a star similar but not identical to the one used by the Cowboys as part of its logo. For this reason, the Cowboys and its co-defendants moved to dismiss the case without trial, arguing that the contested license

agreements show on their face that they do not authorize the use of any marks owned by the Trust or licensed to or by NFL Properties.

Judge Shira Scheindlin has denied the defendants' motion, however. The judge has ruled that NFL Properties is entitled to show, if it can, that the "actual conduct" of Jones and Texas Stadium's licensees differs from the terms of their licenses. If so, Judge Scheindlin ruled, that conduct could violate the terms of the Trust, could infringe NFL Properties' exclusive trademark rights, and could interfere with NFL Properties' performance of the exclusive licenses it had granted to other companies.

Shortly before this issue of the *Entertainment Law Reporter* went to press, the case was settled. According to news accounts, NFL Properties has dropped its case against the Cowboys, though the licenses granted by Texas Stadium will remain in effect. In

return, the Cowboys have dropped a counterclaim which alleged that the original Trust agreement violates federal antitrust law.

National Football League Properties, Inc. v. Dallas Cowboys Football Club, Ltd., 922 F.Supp. 849, 1996 U.S.Dist.LEXIS 1814 (S.D.N.Y. 1996) [ELR 18:7:18]

Appellate court affirms dismissal of case against GoodTimes Home Video, arising out of distribution of videos of public domain John Wayne movie McLintock ; court rejects contention that video distribution violated copyright or synch rights to movie s soundtrack music or infringed trademark rights in its title

GoodTimes Home Video has received the secular "blessings" of two federal courts, permitting it to distribute videos of the 1963 John Wayne western comedy "McLintock," over the vigorously asserted objections of Maljack Productions — the successor to Batjack Productions which is the company that originally produced movie. Maljack's copyright and trademark case against GoodTimes was dismissed without trial by federal District Judge Ronald Lew, in response to GoodTimes' motion for summary judgment. (*ELR* 16:6:16) The Court of Appeals has now affirmed that ruling, in an opinion by Judge Robert Beezer.

The year "McLintock" was first released theatrically — 1963 — is a significant one for copyright purposes, because the copyrights to works first published (or registered) that year had to be renewed in 1991 by filing a form with the Copyright Office, or they fell into the public domain. (The copyrights to works first

published or registered in 1964 or later are renewed automatically, as a result of a 1992 amendment to the Copyright Act. See "Copyright Renewal after the 1992 Amendments: The Strategic Choices to be Made between Automatic and Applied-For Renewals" by Lionel S. Sobel (*ELR* 14:7:3))

The copyright to "McLintock" was not renewed in 1991 as it should have been, so it fell into the public domain at the end of that year. However, the copyright to the soundtrack music for the movie was renewed, so it remains protected by copyright to this very day.

GoodTimes obtained a license from EMI which was the apparent owner of soundtrack music's copyright, authorizing GoodTimes to use the music in connection with the manufacture and sale of "McLintock" videos. But because the movie itself is in the public domain, GoodTimes did not obtain a license from Maljack (or Batjack), which owned the movie's copyright before

it expired, as well as whatever trademark rights might have existed in the movie's title.

Maljack's lawsuit made a subtle and sophisticated copyright claim against GoodTimes — one that turned out to be too subtle and sophisticated to succeed. Maljack's claim was that it, not EMI, owned the soundtrack music's copyright as well as the homevideo "synchronization" rights to that music. This was so, Maljack argued, because when the movie was produced, distribution rights were licensed to United Artists for seven years and then all rights — including music rights — reverted to Batjack. EMI acquired its interest in the soundtrack music copyright from United Artists, so if United Artists' rights to the music reverted to Batjack, EMI didn't own the rights it licensed to GoodTimes — Maljack did.

The difficulty with Maljack's argument was that the contract between Batjack and United Artists quite

clearly assigned to United Artists all of Batjack's copyright in the movie's music in perpetuity, not just for seven years. The Court of Appeals held that the parol evidence rule prevented Maljack from introducing evidence intended to show that ownership of the music copyright was supposed to revert to Batjack after seven years, along with distribution rights in the movie itself. Thus, EMI (as United Artists' successor) is the owner of the music copyrights. The appellate court ruled that Maljack does not have standing to assert synchronization rights in that music, either because synchronization rights are part of the music copyrights which EMI owns, or because synchronization rights are part of the movie's copyright which expired.

Maljack also argued that GoodTimes violated unregistered trademark rights in the movie's title. The appellate court disagreed, however. "Generally, the title of a public domain work cannot be protected by

trademark," Judge Beezer explained. True, the title of a public domain work "cannot be used to deceive the public as to the origin of the work"; and therefore the name of a public domain work "must be accompanied with indications sufficient to show that the thing manufactured or sold is the work of the one making it." GoodTimes satisfied this obligation however, because "GoodTimes' videocassette is clearly labeled with its name as producer." Maljack had not shown that GoodTimes' use of the title "McLintock" was likely to cause consumer confusion; and therefore summary judgment on that claim was proper, the appellate court ruled.

The appellate court also rejected Maljack's claim under California Civil Code section 980 — a section that protects pre-1972 sound recordings. This section does not apply to movie soundtracks, because soundtracks are not "sound recordings." Moreover, if the

section did purport to protect soundtracks, it would be preempted by the Copyright Act, Judge Beezer ruled.

Finally, the appellate court affirmed an award of more than $160,000 to GoodTimes — as the "prevailing party" on the copyright claim — for attorneys fees it incurred during the District Court proceedings; and held that GoodTimes is entitled to additional award for attorneys fees it incurred on appeal (in an amount to be determined by the District Court on remand).

Maljack Productions, Inc. v. GoodTimes Home Video Corp., 81 F.3d 881, 1996 U.S.App.LEXIS 8000 (9th Cir. 1996) [ELR 18:7:19]

Trial court dismisses implied contract and fraud claims in toy idea submission case against Hasbro, because plaintiff had signed waiver of all claims

except copyright and patent infringement; but court rules that trial is necessary on plaintiff s copyright infringement claim and on its implied contract claim based on pre-waiver submission

Toys — like movies and television programs — begin with ideas. So toy companies are the target of idea submission lawsuits almost as often as movie and TV production companies. Hasbro is a "major" in the toy business, and like its counterparts in Hollywood, it has developed a submission agreement which it usually (though not always) asks toy designers to sign before Hasbro considers their submissions.

Toy designer M.H. Segan Limited has filed a submission case against Hasbro in federal District Court in New York City, alleging that Hasbro used three separately submitted toy ideas without paying for any of them. Segan's suit alleges that Hasbro infringed Segan's

copyright to one toy design, and breached implied contracts and committed fraud in connection with all three.

Hasbro responded to the lawsuit with a motion for summary judgment. And Judge Denise Cote has granted the motion, but only in part. The judge has dismissed Segan's implied contract and fraud claims with respect to two designs submitted after Segan had signed Hasbro's waiver form. But the judge has ruled that trial is necessary on Segan's copyright infringement claim and its implied contract claim with respect to one toy design it had submitted without signing a waiver.

Hasbro's waiver form provides that no confidential relationship is established by the submission, nor is an obligation of any kind to be implied against Hasbro unless a formal written contract is signed. The waiver also provides that the only rights arising out of the submission are those accorded by patent and copyright law,

and "All other claims of whatever nature arising out of [the] Submission are hereby waived."

Judge Cote found the waiver to be unambiguous; and the judged rejected Segan's contention that it was to apply only to claims for compensation for making submissions of designs which Hasbro did not use or to designs previously known to Hasbro.

Judge Cote also ruled that the waiver barred Segan's fraud claim, even though Segan alleged that Hasbro had induced Segan to sign the waiver by orally assuring it that Hasbro would compensate Segan for any designs Hasbro might use, despite the language of the waiver. The judge held that Hasbro's alleged oral representations were directly contradicted by the written waiver, and thus Segan could not demonstrate it "justifiably or reasonably" relied on them.

Segan submitted one toy design to Hasbro without being asked to sign a waiver. The design was for a

Frankenstein-like doll called "Frankenstuff." Segan alleged that its copyright to "Frankenstein" was infringed by a subsequently-manufactured Hasbro doll called "Big Frank" which also was Frankenstein-like — so much so, in fact, that Hasbro obtained a license from MCA, which owns the copyright to Frankenstein, before making its "Big Frank" doll. Segan also alleged that Hasbro breached an implied contract by making "Big Frank" dolls without paying Segan for the idea.

Judge Cote ruled that Segan's "Frankenstuff" claims could not be dismissed on motion for summary judgment, for several reasons. The copyright claim could not be dismissed, because Hasbro's argument that Segan's copyright was invalid — because "Frankenstuff" is substantially similar to MCA's "Frankenstein" — requires a trial, as does Hasbro's argument that its doll is not substantially similar to Segan's. Likewise, the "Frankenstuff" implied contract claim could not be

dismissed, because even though novelty is required under New York law for implied contract protection, there is an issue of fact as to whether "Frankenstuff" was novel when Segan first submitted it.

M.H. Segan Limited Partnership v. Hasbro, Inc., 924 F.Supp. 512, 1996 U.S.Dist.LEXIS 5911 (S.D.N.Y. 1996) [ELR 18:7:20]

Insurance policy issued to theater management company does not provide coverage for claims asserted by singer Wayne Newton in case alleging company mismanaged Wayne Newton Theater and thereby injured Newton s reputation

Branson Missouri has become the "Broadway" of live music concerts. Theaters named after famous

singers line that city's streets, one of which is a theater named after the one-time darling of Las Vegas, Wayne Newton.

Newton doesn't manage the "Wayne Newton Theater" himself. It's managed instead by Shenandoah South, Inc., under a contract of some sort with the singer. A dispute has arisen between Newton and Shenandoah concerning the manner in which Shenandoah has managed the theater, and Newton has sued Shenandoah for breach of their contract, negligent mismanagement and other things.

In that lawsuit, Newton alleged that Shenandoah had relied on his reputation in its management of the theater, and that the company's mismanagement of the theater had damaged his reputation and good will. Newton also alleged that his reputation was injured when Shenandoah "turned away inquiries from tour operators anxious to purchase tickets for 1994 [performances] by

falsely claiming they had not yet received Newton's 1994 schedule."

Shenandoah is a professional management company, so it was careful to get insurance to protect it against a variety of perils. One such policy was a commercial general liability policy — commonly referred to throughout the insurance industry as a CGL policy — issued by Reliance Insurance Company. The Reliance CGL policy issued to Shenandoah South provided coverage for claims of bodily injury and property damage, as well as claims for personal and advertising injuries. The policy defined personal and advertising injuries to include injuries to reputation caused by slanderous, libelous or disparaging statements.

When Newton filed his lawsuit, Shenandoah tendered the defense to Reliance, asserting coverage under the personal and advertising injury clauses of the CGL policy. Reliance, however, read the policy differently,

and responded by filing a declaratory relief lawsuit against Shenandoah in federal District Court, seeking judicial confirmation of its belief that its policy does not cover Newton's claims. Judge Russell Clark agreed with Reliance; and the Court of Appeals has affirmed that ruling.

In an opinion by Judge John Jones, the appellate court explained that "A person's reputation can be damaged in many ways, only one of which is by slander or disparagement. . . . Negligent mismanagement of the 'Wayne Newton Theater' by Shenandoah South may damage Wayne Newton's reputation and good will, but it clearly does not libel or slander Newton or disparage his services, and therefore is not covered by Reliance's liability policy."

The Court of Appeals reached the same conclusion with respect to Shenandoah's statements about unavailability of Newton's 1994 performance schedule.

That statement did not imply that Newton was unfit to perform the duties of an entertainer, Judge Jones said. Thus, "Even if falsely given, the statement does not as a matter of law libel or slander Newton or disparage his services, and therefore is not covered by Reliance's policy."

Reliance Insurance Company v. Shenandoah South, Inc., 81 F.3d 789, 1996 U.S.App.LEXIS 8482 (8th Cir. 1996) [ELR 18:7:21]

BMI wins copyright infringement suit based on karaoke performances of music, because jukebox license did not cover karaoke machine, federal district court rules

A karaoke machine is not a jukebox by another name. The two devices are different, for copyright purposes at least. Thus a jukebox license, by itself, does not authorize a business to conduct "karaoke nights," even if the karaoke machine is connected to the same "sound

This lesson has been learned by the Fairport Village Inn — a public establishment in the state of New York that conducted monthly karaoke nights without a BMI license to do so — as a result of a copyright infringement lawsuit filed by BMI and several music publishers. District Judge David Larimer has ruled that the Inn infringed the publishers' copyrights by permitting customers to publicly perform songs accompanied by a karaoke machine, because the BMI license held by the owner of the Inn's jukebox did not cover the separate karaoke machine, even though the jukebox and karaoke machine were connected to the same "sound system."

The question of whether a jukebox license includes karaoke machine performances appears to be one of first impression. Judge Larimer rejected the Inn's argument that it does, because if that were so, jukebox licensees would be able to play "any type of recorded music, whether through a karaoke machine or by hiring a disc jockey, so long as they played the music through the same sound system which was utilized by a properly licensed machine." The judge found "such an argument unconvincing," and the Inn's owners "failed to support their position with any case authority whatsoever."

The judge also rejected the Inn's argument that it had entered into a public performance license with BMI when the Inn's manager changed the license fee on an agreement form BMI had sent and then mailed the form back to BMI. This "unilateral change . . . did not bind BMI," the judge ruled; and since BMI never consented

to it, "there was no basis to believe that a license agreement had been obtained."

As a result, the judge granted BMI's motion for summary judgment, in part, and has enjoined the Inn's owners from committing further infringements. BMI's request for damages and attorneys fees was denied without prejudice, because Judge Larimer determined that a question of material fact exists concerning whether the Inn's infringements were "willful."

Broadcast Music, Inc. v. WPBK, Inc., 922 F.Supp. 803, 1996 U.S.Dist.LEXIS 5533 (W.D.N.Y. 1996) [ELR 18:7:21]

Netcom settles copyright infringement case filed by licensees of L. Ron Hubbard writings posted to Internet by Scientology critic, after District Court

rules that Netcom may be liable for contributory copyright infringement (though not primary or vicarious infringement); in separate case, Washington Post wins dismissal of copyright infringement case filed against it, because Post s quotation of portions of Internet-posted Scientology writings was a fair use

Netcom On-Line Communication Services is one of the country's largest providers of Internet access, so it is not surprising that the company was at the epicenter of a lawsuit that raised a cutting edge issue. Stated broadly, that issue concerns the scope of copyright protection given to works that are disseminated on the Internet without the consent of their copyright owners.

While Netcom's involvement in such a lawsuit is not surprising, the identity of its adversary is. The major proponents of full (or even enhanced) copyright protection on the Internet are film, music and software

companies. But Netcom wasn't sued by any of these. Netcom was sued by publishers of *religious* writings.

Religious Technology Center and Bridge Publications are the exclusive licensees of Scientology materials written by the late L. Ron Hubbard. Excerpts from these materials were posted to the Internet by a former Scientology minister who has become a "vocal critic" of the religion. The critic posted Scientology materials without the consent of the Center or Bridge, thus triggering their copyright infringement (and trade secret) lawsuit against him. Netcom got caught in the middle of the dispute, because the critic's access to the Internet was through a computer "bulletin board" (or "newsgroup") carried by Netcom. The Center and Bridge demanded that Netcom remove the Scientology materials from its system, and when Netcom refused, they sued Netcom too.

In their copyright case against Netcom, the Center and Bridge alleged that because Netcom permitted its

computers to be used to store and disseminate copyright-protected Scientology writings, Netcom was liable for primary copyright infringement (on account of its own activities), contributory copyright infringement (because it contributed to infringements committed by the critic), and vicarious copyright infringement (because it was responsible — as an employer might be — for infringements committed by the critic). Netcom responded to these claims with a motion for summary judgment, arguing that as a mere Internet provider, it should not be held liable for copyright infringement on any of these theories.

District Judge Ronald Whyte (of the Northern District of California) agreed in part with Netcom — but only in part. The judge agreed that Netcom should not be held liable as a primary infringer. And he agreed that under the circumstances of this case, it could not be held liable as a vicarious infringer either. However, the judge

denied Netcom's motion as to the contributory infringement claim. Judge Whyte ruled that because Netcom may have known that the Scientology critic had posted copyright-protected material without consent, Netcom might be found liable for contributory infringement.

Following the judge's ruling, Netcom settled with the Center and Bridge. Netcom did so by adopting new provisions of its "Acceptable Use Guidelines" which form a part of Netcom's contract with its customers. Those Guidelines now state that Netcom account holders "may not post, upload or otherwise distribute copyrighted material on Netcom's servers without the consent of the copyright holder." Netcom "reserves the right to investigate suspected violations of these Guidelines." Moreover, and more significantly, "During an investigation, Netcom may suspend the account or accounts involved and/or remove the material involved from its servers." And "If Netcom believes, in its sole

discretion, that a violation of these Guidelines has occurred, it may take responsive action. Such action may include, but is not limited to, temporary or permanent removal of material from Netcom's servers, the cancellation of newsgroup posts, warnings to the accountholder or accountholders responsible, and the suspension or termination of the account or accounts responsible."

In a separately-published ruling, Judge Whyte restrained the Scientology critic himself from posting copyright-protected writings by L. Ron Hubbard to the Internet. In granting the restraining order requested by the Center and Bridge, the judge ruled that it was unlikely the critic's Internet postings would be found to be a "fair use" of those writings.

In an altogether separate lawsuit — but one that also arose out of the Internet postings of Scientology writings — District Judge Leonie Brinkema (of the

Eastern District of Virginia) granted a motion for summary judgment made by The Washington Post, one of the defendants in that case. The Center and Bridge had sued the Post for copyright infringement (and trade secret misappropriation) as a result of a Post news article that quoted portions of Scientology works. Earlier in the case, Judge Brinkema had denied a motion for a preliminary injunction against the Post (*ELR* 18:1:9), ruling that the quotations were likely to be a "fair use." (The judge later denied a request by the Center and Bridge for reconsideration of that denial.) Now, Judge Brinkema has ruled that the quotations were a fair use (and that the Post did not misappropriate trade secrets); and the judge has awarded the Post attorneys fees as the successful party in the case.

Religious Technology Center v. Netcom On-Line Communication Services, Inc., 923 F.Supp. 1231, 907

F.Supp. 1361, 1995 U.S.Dist.LEXIS 16184, 18173 (N.D.Cal. 1995); *Religious Technology Center v. Lerma*, 908 F.Supp. 1353, 1362, 1995 U.S.Dist.LEXIS 17831, 17868 (E.D.Va. 1995) [ELR 18:7:22]

TV reporter Steve Powers is ordered to arbitrate age discrimination claim against Fox Television

After 12 years as a reporter for WNYW-TV in New York City, Steve Powers' employment was terminated by the station's owner, Fox Television Stations, Inc. Powers' written employment agreement gave Fox the right to terminate their relationship. And Fox complied with the terms of the agreement in doing so, because when it did, Powers did not claim Fox had breached his agreement. Indeed, he expressly conceded

that "Fox terminated his employment in a manner that did not violate this agreement."

Powers did claim, however, that when Fox terminated his employment, it discriminated against him on account of his age, in violation of New York state and city laws. Powers made this claim in an age discrimination lawsuit which he filed in New York state court — a suit which Fox removed to the federal District Court in New York City (on diversity of citizenship grounds). The case has produced a short but significant decision — not on the factual merits of Powers' claim, but on the legal question of whether his claim should be heard by a judge and jury, as Powers' wished, or instead by an arbitrator, as Fox wished.

Powers' employment agreement contained a broadly-worded arbitration clause, one that required arbitration of "all disputes . . . arising out of or in connection with" the agreement in accordance with the AFTRA

Code. Thus, on the face of the agreement, arbitration certainly seemed to be required.

Powers, however, argued that the Federal Arbitration Act — the statute that requires federal judges to enforce arbitration agreements — does *not* apply to employment agreements, at least not to those involving "seamen, railroad employees, or . . . other . . . workers engaged in . . . interstate commerce." Insofar as seamen, railroad employees and workers engaged in interstate commerce are concerned, the Federal Arbitration Act itself contains an express exception. And while Powers was not a seaman or a railroad worker, he quite arguably was a worker in interstate commerce.

Nonetheless, Judge Shira Scheindlin has ruled that the interstate-worker exception to the Arbitration Act does not apply to the employment agreements of all interstate workers. Rather, the judge agreed with earlier decisions which have held that the exception applies

only to those interstate commerce employees "actually working in the transportation industry." Since television is not in the transportation industry, the exception does not apply to Powers' employment agreement, Judge Scheindlin concluded.

Powers also argued that his age discrimination claim did not arise "out of or in connection with" his employment agreement, and thus the arbitration clause in his contract did not apply for that reason as well. Judge Scheindlin has rejected this argument too. The judge reasoned that "Powers' employment relationship with Fox existed solely by virtue of the employment agreement. Accordingly, his claim that this employment relationship was unlawfully terminated clearly 'aris[es] out of or in connection with' this agreement." In so ruling, Judge Scheindlin noted "the strong federal policy favoring arbitration."

Powers v. Fox Television Stations, Inc., 923 F.Supp. 21, 1996 U.S.Dist.LEXIS 346 (S.D.N.Y. 1996) [ELR 18:7:23]

Breach of contract and other state law claims asserted by American Movie Classics network in lawsuit against Turner Entertainment, arising from showing of certain movies on Turner Classic Movies network in alleged violation of exclusive rights granted by Turner to AMC, are preempted by federal copyright law

The American Movie Classics cable network has a serious beef with Turner Entertainment Co. arising out of Turner's alleged breach of a 1992 contract by which Turner granted AMC certain exclusive rights in a 700-film library of RKO Pictures which Turner now

owns. The alleged breach occurred in 1994 and 1995, after Turner launched its own classic movie cable channel, Turner Classic Movies. According to AMC, Turner Classic Movies showed some of the RKO films and thereby violated the exclusive rights Turner had granted to AMC.

Since AMC had agreed to pay some $48 million for those rights, the consequence of Turner's alleged violation of them was a lawsuit, filed in federal District Court in New York City. AMC's lawsuit alleges six claims. Two are for federal copyright infringement. The other four are state law claims: breach of contract; tortious interference with contract; unfair competition; and unjust enrichment.

The early stages of many lawsuits involve what can be characterized as procedural wrangling, and the case between AMC and Turner is one of these. Turner sought dismissal of the four state law claims (not the

copyright claims) on the grounds they are preempted by federal copyright law. And Judge Allen Schwartz has granted Turner's motion.

The judge applied section 301 of the Copyright Act which preempts state law claims that assert rights that are "equivalent" to the rights of copyright where the works in question are "within the subject matter of copyright."

In this case, the "subject matter" of AMC's claims is movies, and the movies in question are clearly protected by copyright — AMC itself alleged this to be so, in its copyright infringement causes of action. The question of whether the rights asserted by AMC are "equivalent" to those of copyright was somewhat more difficult. But Judge Schwartz determined they were, as to all four state law claims.

AMC's breach of contract claim involved nothing more than an assertion that Turner used certain

copyright rights which had been conveyed to AMC exclusively; and thus AMC's contract claim is equivalent to its copyright infringement claim.

AMC's tortious interference claim was defective, because "it is well settled that claims for tortious interference based on the unauthorized publication of a work protected by the Copyright Act are preempted."

The unfair competition claim met the same fate, because "Courts in this Circuit have consistently held that claims for misappropriation of rights within the scope of copyright brought under New York unfair competition law are preempted."

As to the fourth state law claim, the judge ruled that "preemption is appropriate because AMC's unjust enrichment claim does not allege that defendants were enriched from anything other than their unauthorized exhibition of the copyrighted films — a claim which is

equivalent to the exclusive right of public performance provided by the Copyright Act."

Editor s note: As a result of these rulings, AMC's case will proceed on its copyright infringement claims only. The issue in the case will be whether Turner Classic's showing of the movies did intrude into the area of exclusivity previously granted to AMC by Turner Entertainment. While this is a contract interpretation issue, if the court interprets the contract the way AMC does, and thus finds that there was such intrusion, the consequence will be that Turner Classic's showings of the movies will have been copyright infringements. In that event, the remedies available to AMC appear to be all of those (and perhaps more) that would have been available under its now-dismissed state law claims, so little will have been lost to AMC by this ruling.

American Movie Classics Company v. Turner Entertainment Co., 922 F.Supp. 926, 1996 U.S.Dist.LEXIS 4626 (S.D.N.Y. 1996) [ELR 18:7:24]

Musicians claims of co-ownership of copyright to Hooked on Phonics is barred by three-year statute of limitations, appellate court affirms

Musicians Paul Zuill and Lou Rossi say they are the co-authors of “Hooked on Phonics,” a now-popular audiotape program that helps children learn how to read. As co-authors, they claim to be co-owners of the program’s copyright. This claim was made in a lawsuit, seeking declaratory relief and an accounting of profits, filed in federal District Court in California against John Shanahan, who the musicians acknowledge was the

program's original creator and who they say is their third co-author.

Back in 1987, Shanahan asserted that his publishing company is "sole owner" of the program's copyright. Zuill and Rossi did not dispute Shanahan's assertion then, perhaps because "Hooked on Phonics" was not successful at first. Instead, Zuill and Rossi didn't make their co-ownership claim until 1991, after Shanahan had begun making money from the program.

Federal District Judge Gary Taylor granted summary judgment in Shanahan's favor, ruling that the Copyright Act's three-year statute of limitations barred Zuill and Rossi's co-ownership claim. Now, the Ninth Circuit Court of Appeals has affirmed that ruling.

In an opinion by Judge Andrew Kleinfeld, the appellate court has held that the Copyright Act's three-year statute of limitations applies to co-ownership claims, and that such claims "accrue when plain and

express repudiation of co-ownership is communicated to the claimant, and are barred three years from the time of repudiation." Judge Kleinfeld rejected the musicians' argument that the three-year period began anew each time a copy of "Hooked on Phonics" was sold. "An infringement occurs every time the copyrighted work is published," the judge agreed, "but creation does not. Creation, rather than infringement, was the gravamen of plaintiffs' co-ownership claim, so the claim did not accrue upon subsequent publication."

The judge also noted that the distinction between infringement and creation was not one Zuill and Rossi could have avoided by pleading a different theory. Since they acknowledged that Shanahan was their co-author, his use of the program would not have been an infringement of their rights, even if they were co-owners, because it is well-settled copyright law that one co-owner cannot infringe the copyright interest of another.

Editor s note: This decision puts the Ninth Circuit at odds with other circuits on this issue (as it often is on other copyright issues). Judge Kleinfeld said that a contrary ruling in the Second Circuit in *Stone v. Williams* [*ELR* 14:6:8] "may be . . . distinguishable . . . because of its 'highly idiosyncratic facts'"; though then Judge Kleinfeld bluntly said (as the Ninth Circuit often does in copyright cases) that the Second Circuit's decision "is not controlling authority in this circuit" and thus "we need not decide whether *Stone* is properly distinguishable." Judge Kleinfeld did not address an even more recently decided case from the 5th Circuit, *Goodman v. Lee* [*ELR* 18:6:8], which held that state law, rather than the Copyright Act, supplies the statute of limitations in a suit for an accounting based on a claim of co-authorship.

Zuill v. Shanahan, 80 F.3d 1366, 1966 U.S.App.LEXIS 14516 (9th Cir. 1996) [ELR 18:7:24]

Federal court has jurisdiction to determine whether former Variety staffer Fred Lombardi is co-author, along with Variety art director J.C. Suares, of The Variety Book of Movie Lists

"The Variety Book of Movie Lists" says something about power in Hollywood. Now the book has become the focal point in a lawsuit that says something about power in the federal court system.

Federal courts are powerful, of course, but they are courts of limited jurisdiction. That is, they may exercise their powers only in those cases where Congress has given them explicit statutory jurisdiction to do so. Federal courts have jurisdiction to hear copyright cases, because section 1338(a) of title 28 of the United States Code gives them jurisdiction to hear "any civil action

arising under any Act of Congress relating to . . . copyrights."

Jurisdiction questions can be dry and technical — of interest to litigators perhaps but rarely to clients. Nonetheless, a jurisdiction question is one of the first to have arisen in an interesting dispute between Fred Lombardi and J.C. Suares over the true "authorship" of "The Variety Book of Movie Lists." Lombardi claims to be a co-author of the book, along with Suares, in a lawsuit Lombardi filed in federal court because he has not received credit or royalties from the book's publication by Reed Consumer Books Limited.

Back in 1992, when Lombardi and Suares were both working for *Variety*, the two allegedly agreed to collaborate on "The Variety Book of Movie Lists." Lombardi asserts that he was to provide the text and Suares, a *Variety* art director, was to provide the illustrations. According to Lombardi, their respective

contributions were to be merged into a "unitary whole," which would have made him a co-author of the book. Suares, on the other hand, asserts that Lombardi's contributions to the book were to be made as a "work for hire," which would have made Suares the sole author of the book.

In due course, the book was published by Reed, pursuant to a contract Reed entered into with Suares alone. One provision of that contract was a representation by Suares that he alone had the power and authority to enter into the contract. As a consequence of the book's publication without credit or royalties to Lombardi, Lombardi sued Suares in federal court in New York City seeking a judicial declaration that he is a joint-author of the book and an accounting. Suares responded by moving to dismiss the case, on the grounds that the court did not have subject matter jurisdiction to

hear it, because the case is really a breach of contract case, not a copyright case.

Judge Deborah Batts has denied Suares' motion. The judge acknowledged that federal courts usually do not have jurisdiction to hear copyright ownership disputes in cases involving transfers of copyrights by contract; this is so because such cases are contract interpretation cases, not copyright cases. This case is not like those, however, the judge ruled. Lombardi does not claim to be a co-author of the book by virtue of any contractual transfer of copyright from Suares. Instead, Lombardi claims to be a co-author by virtue of the Copyright Act's own definition of joint authorship. Even Suares' defense that Lombardi's contributions to the book were made as a work-for-hire is a defense that depends on the definition of "work made for hire" found in the Copyright Act itself.

Thus, Judge Batts concluded that this case does "arise under" the Copyright Act, and that her court has jurisdiction to hear Lombardi's case for that reason.

Lombardi v. Suares, 923 F.Supp. 51, 1996 U.S.Dist.LEXIS 5749 (S.D.N.Y. 1996) [ELR 18:7:25]

Zeocrystal Industries, a maker of odor-removing crystal minerals, is ordered to file amended complaint in $10 million trademark and unfair competition case against Fox Broadcasting and others based on references in Power Rangers to a fanciful magic weapon that uses Zeo Crystals

Senior federal District Judge Milton Shadur has shown himself to be a "Power Ranger" in his own right. As Judge Shadur himself has reported, he "always

undertakes an immediate review of newly-filed complaints" to see whether federal jurisdiction and "other matters" are properly alleged. As a result of just such a review, Judge Shadur has ordered Zeocrystal Industries to submit an amended complaint in a $10 million trademark and unfair competition case the company has filed against Fox Broadcasting and others, as a result of references in the children's television series "Power Rangers" to a fanciful magic weapon that uses "Zeo Crystals." The judge's order was issued "sua sponte," that is, even before it was requested by Fox or its co-defendants.

Zeocrystal Industries has registered the mark "Zeocrystal" for use in connection with an odor removing mineral; and it was that registered mark the company sought to protect in its lawsuit. But while conducting his "immediate review" of the case, Judge Shadur noted that "Some obvious problems leap off the pages of the

Complaint. . . . Most importantly, trademark registrations do not grant rights in a vacuum. As the Registration reflects, it covers the attachment of the mark only to specified goods — not the types of goods marketed by defendants. Trademark registrations do *not* create a presumptive exclusive right to use the mark for entirely different goods, such as those ascribed to defendants here." As a result, the judge concluded that Zeocrystal's' "trademark infringement claim is an extremely doubtful candidate for survival."

The company's unfair competition claim appeared "just about equally dubious" to the judge. "Does a highly specialized company such as Zeocrystal . . . *really* believe," Judge Shadur asked (and the italics are his), "that the wholly different and fanciful uses that it ascribes to defendants will be viewed by *anyone* as a false designation of origin (that is, as though Zeocrystal were the source of those uses)?"

The judge was equally unimpressed with the company's state law claims. Judge Shadur acknowledged that federal courts have jurisdiction to hear diversity cases involving more than $50,000. But, he said, "the dollar signs in Zeocrystal's and its counsel's eyes suggested by their . . . reference to $10 million in damages are plainly just as fanciful as defendants' 'magic weapon.'"

Zeocrystal Industries, Inc. v. Fox Broadcasting Co., 923 F.Supp. 132, 1996 U.S.Dist.LEXIS 5601 (N.D.Ill. 1996) [ELR 18:7:26]

Litigation waiver required of race car drivers by government-owned racetrack is unconstitutional as applied to gender discrimination claims, federal District Court rules

Earlyn Clark is a race car driver and a woman. While no longer the only race car driver of her gender, she is still something of a pioneer, in the courts as well as on the track.

In the first lap of a recent case in federal court in California, Clark has won a ruling that keeps her active in what looks to be a multi-lap lawsuit. It is a suit in which she alleges that she has been discriminated against on account of her gender by the All American Speedway at the Placer County fairgrounds. The All American Speedway is operated by the Placer County Fair Association under a contract with the County itself which owns the grounds on which the racetrack sits.

Clark drove in All American Speedway races from 1985 to 1992. But in 1993, the Speedway adopted new rules which Clark alleges prevented her from racing there that year. According to Clark, these rules were not

applied evenhandedly and she was treated unfairly because she is a woman. Among the rules that became effective that year was one which requires drivers to sign a litigation waiver in order to race at the Speedway, and one which provides for the immediate suspension of any driver who challenges the Speedway or its officials in court.

Clark sued both the County and the Fair Association, alleging she was discriminated against in violation of the equal protection and due process clauses of the 14th Amendment. In due course, both she and the defendants made motions for summary judgment. The defendants sought dismissal on the grounds that the operation of the Speedway does not involve "state action," so the 14th Amendment does not apply to its activities. They also sought a ruling that the litigation waiver requirement is constitutional. Clark sought the opposite rulings, and she got them.

Judge Lawrence Karlton has ruled that under the circumstances that exist in Placer County, the Fair Association "is the county" — and thus its activities are "state action" under the 14th Amendment — and that even if the Fair Association were viewed as a private actor for other purposes, Placer County was "sufficiently involved so as to treat the conduct of the [Fair Association] as state action."

More significantly, Judge Karlton also ruled that the litigation waiver requirement is an unconstitutional condition to participation in a governmentally provided activity, in the context of gender discrimination suits. This is so, the judge explained, because the requirement seeks waiver of access to the courts to enforce the constitutional right to equal protection premised on gender, and because the defendants failed to show a sufficient interest justifying a waiver of this right. The defendants had sought to justify the waiver on the grounds that auto

racing is dangerous, and thus they would be exposed to tort claims if waivers were not obtained from drivers. Judge Karlton rejected this justification, saying, "Even if those considerations suffice in a tort context, they have no application to a suit . . . seeking to vindicate the right to equal protection."

Clark v. County of Placer, 923 F.Supp. 1278, 1996 U.S.Dist.LEXIS 5815 (E.D.Cal. 1996) [ELR 18:7:26]

Court of Appeals affirms summary judgment for Texas Tech, dismissing race discrimination and First Amendment lawsuit filed by former assistant basketball coach whose contract was not renewed

Texas Tech University has prevailed in a case that resulted from a once-close relationship gone sour.

The relationship was with Phillip Wallace who during his years as a Texas Tech student had played intercollegiate basketball on the school's team. When Wallace's playing days were over, James Dickey, the Texas Tech head basketball coach, hired Wallace as an assistant coach, signing him to a one-year contract.

The relationship between Dickey and Wallace was a difficult one from the start. Dickey later said that Wallace refused to follow his instructions and repeatedly questioned Dickey's coaching judgment. Whether for that or other reasons, when Wallace's contract expired, Dickey did not renew it. Instead, Dickey hired another assistant coach to replace Wallace. Wallace went to court, contending that there were other reasons his contract was not renewed — other, that is, than the ones given by Dickey.

Wallace is black. Though the coach who was hired to replace him was black as well, an assistant who

had been hired the same year as Wallace was white. In his lawsuit, Wallace alleged that by not renewing his contract, Dickey had discriminated against him on account of his race in violation of Title VII of the Civil Rights Act and had violated his First Amendment free speech and association rights.

Though cases of this kind are often fact-intensive, Federal District Judge Samuel Ray Cummings dismissed Wallace's complaint without a trial, in response to a motion for summary judgment filed by Texas Tech and Coach Dickey. The Court of Appeals has affirmed the summary judgment, ruling that the evidence in the record failed to show that Wallace's rights had been violated.

Wallace argued that he had been discriminated against in violation of Title VII in four ways: because his contract was not renewed; because he was paid less than the white coach hired the same year; because he

was disciplined differently than the white coach; and because he was subjected to a hostile work environment. In support of their motion for summary judgment, Texas Tech and Dickey had submitted affidavits denying Wallace's factual assertions and denying they had discriminated against him. In response, Wallace failed to submit affidavits or other evidence disputing the factual assertions made by Texas Tech and Dickey in their affidavits. As a result, the Court of Appeals ruled that there was no evidence in the record creating an issue of fact requiring a trial on Wallace's Title VII claim. This was so even with respect to Wallace's "disparate pay" claim, because although Wallace was paid $58 a month less than the white assistant coach hired at the same time, Wallace had no prior coaching experience when he was hired by Dickey while the other coach had seven years of coaching experience when he was hired.

Wallace also argued that his First Amendment rights had been violated. This was so, he said, because he attributed Dickey's failure to renew his contract to two things. First, Wallace had advised black basketball players they were eligible to receive financial assistance from Texas Tech for a fifth year, and had told them "how to handle" discrimination by Dickey concerning their right to receive such assistance. Second, Wallace became "close" to the black players on the team.

However, the Court of Appeals ruled that even if true, neither allegation gave rise to a valid First Amendment claim. In an opinion by Judge William Garwood, the appellate court held that public employees have a First Amendment right not be terminated on account of their speech, only if the speech concerns a "matter of public concern," and that public employee speech is of public concern only in cases "involving the report of corruption or wrongdoing to higher authorities." In this

case, Wallace's advice to players about financial assistance was not speech of that type, Judge Garwood ruled.

In addition, Wallace's relationship with Texas Tech players was not the type of "association" protected by the First Amendment, because the Constitution does not protect a "generalized right of 'social association.'" Instead, the First Amendment protects only certain relationships "that presuppose 'deep attachments and commitments'" involving "distinctively personal aspects of one's life." The player-coach relationship is not one of these, Judge Garwood concluded.

Wallace v. Texas Tech University, 80 F.3d 1042, 1996 U.S.App.LEXIS 6874 (5th Cir. 1996) [ELR 18:7:27]

England, rather than United States, is proper forum for copyright infringement action by British costume

designer against BBC and Lionheart Television in case involving Mr. Blobby merchandise, federal appellate court affirms

"Mr. Blobby" is a character on the British television program "Noel's House Party." He was created by British costume designer Dominic Murray, at the behest of the BBC, the program's producer. Despite his prosaic name and origins, "Mr. Blobby" is the subject of an international copyright case that may have some continuing significance.

Murray asserts that the BBC, and its American subsidiary Lionheart Television, have infringed his copyright in the design of the "Mr. Blobby" costume by licensing the manufacture and sale of "Mr. Blobby" merchandise in Great Britain and the United States. Murray made this allegation in a lawsuit filed in federal District Court in New York City; but District Judge

Louis Stanton dismissed the case on the ground of *forum non conveniens*. Now, the Court of Appeals has affirmed the dismissal, ruling that English courts are the proper forum for the case, rather than U.S. courts.

In an opinion by Judge Ralph Winter, the appellate court rejected Murray's contention that the Berne Convention entitled him to the same access to U.S. courts as an American would have. As a foreigner, Murray's choice of forums was entitled to less deference than it would have been, had he been an American, Judge Winter ruled.

The judge also rejected Murray's assertion that English courts are not available to him as a practical matter, because contingent fees are not permitted in England, as they are in the United States, and thus the U.S. was the proper forum for his case. Any financial hardship Murray might suffer in England, because contingent fees are not available there, was simply one

factor to be balanced with others, Judge Winter determined.

In balancing the relevant factors, the judge determined that the "central issue" in the case — whether Murray or the BBC owns the "Mr. Blobby" copyright — involves British contract law, two British citizens, and events that took place in Britain. Thus the U.S. has "virtually no interest" in that dispute. Moreover, the judge gave "little weight" to the availability of contingent fees in the United States, saying that the U.S. policy of permitting such fees "was not designed to suck foreign parties disputing foreign claims over foreign events into American courts." Finally, witnesses and documents concerning the circumstances surrounding the creation of "Mr. Blobby," and thus the ownership of its copyright, are all in England.

For all of these reasons, the appellate court concluded that the District Court had not abused its discretion in dismissing the case.

Editor s note: Judge Winter's assertion that British, rather than U.S., law controls the question of who owns the *United States* copyright to "Mr. Blobby" is quite significant, and is likely to be the point for which this case is cited in the future even more often than for its analysis of the *forum non conveniens* issue. While I believe that Judge Winters is correct in saying that British, rather than U.S., law applies in deciding *who* owns the U.S. copyright to "Mr. Blobby," other decisions have said or suggested that U.S. law (rather than British law) should control that issue even though Murray and the BBC are both British, their deal for the creation of "Mr. Blobby" was made in England, and "Mr. Blobby" was actually created there. Judge Winter's assertion that British (rather than U.S.) law controls is not entirely

unprecedented; some decisions support it as well. The issue, in other words, is unsettled and remains important. (See "Pursuing the Home Court Advantage in International Copyright Litigation" by Lionel S. Sobel (*ELR* 17:4:3).)

Murray v. British Broadcasting Corp., 81 F.3d 287, 1996 U.S.App.LEXIS 7454 (2d Cir. 1996) [ELR 18:7:28]

Consignment agreement between seller of painting and auctioneer authorized the auctioneer to cancel sale after buyer determined painting was not authentic, even though auction catalog indicated painting was to be sold as is and without warranty, appellate court rules in affirming summary judgment against seller

We live in an era when the authenticity of countless works of seemingly valuable art is subject to doubt. Entire books have been written about the prevalence of art frauds and forgeries. (*False Impressions: The Hunt for Big-Time Art Fakes* by Thomas Hoving is the most recent. (Simon & Schuster 1996)) When art works sell for thousands and even millions of dollars, as they sometimes do, it is not surprising that legal disputes arise when buyers conclude they have not gotten exactly what they thought they bought. Many of these disputes have had to be resolved in courts, and the decisions of those courts are creating a growing topic within the larger subject of art law: the rights and duties of sellers, auctioneers and buyers, when art works are sold at auction.

The latest of these cases involves “The Plains of Meudon,” a painting once thought to have been created

by French artist Theodore Rousseau, a prominent member of the "Barbizon school." The painting was inherited by Peter and Walter Kohler from their mother in 1989; and two years later they decided to sell it, along with other artworks from their mother's estate. As a result, the Kohlers contacted Leslie Hindman Auctioneers, Inc., and after discussion with Ms. Hindman herself, the Kohlers entered into a consignment agreement with Hindman Auctioneers for the sale of their artworks, including "The Plains of Meudon."

The consignment agreement required Hindman to sell the art according to conditions spelled out in the auction catalog. Two of the catalog's conditions became particularly important. One was that all works "are sold 'AS IS.'" Another was that "no statement anywhere" should be deemed a warranty of authenticity. The consignment agreement also gave Hindman the authority to rescind any sale if in its "sole discretion" it determined

that the sale subjected it (or the Kohlers) to “any liability under a warranty of authenticity.”

Before the auction of “The Plains of Meudon” took place, an interested buyer named Richard Thune suspected the painting might not be authentic, but he didn’t have time to confirm his suspicions before the auction date. As a result, Hindman entered into a side agreement with Thune that provided that if he were the successful bidder, and an expert then determined that the painting was not an authentic Rousseau, Thune could return the painting within the 30 days and the sale would be canceled. At the auction, Thune made the top bid of $90,000. He took possession of the painting (without paying for it), and sent it to an expert in Paris. The expert determined the painting was not a Rousseau; and Thune returned it to Hindman, expecting no doubt that that would be the end of the matter. It wasn’t.

The Kohlers — who had never been told about the side agreement between Hindman and Thune, and thus never had consented to it — sued. As far as they were concerned, they had sold the painting for $90,000 — "as is" and "without warranty" — and they wanted their money. The wrinkle of course was the now-apparent conflict between the consignment agreement provision that sales were to be "as is" and "without warranty," and the provision that gave Hindman the right to rescind the sale if it determined it was exposed to liability under the warranty of authenticity.

As far as the Kohlers were concerned, there was no real conflict between these two provisions, because the "as is" and "no warranty of authenticity" condition of the sale meant that Hindman "could not possibly have faced any realistic threat of warranty liability." The question apparently was more difficult than that, however, because federal District Court Judge Charles

Kocoras granted summary judgment to Hindman and Thune; and the Court of Appeals has affirmed, ruling against the Kohlers too.

In an opinion by Judge Richard Cudahy, the appellate court held that the consignment agreement gave Hindman the right to rescind the sale, if in its "sole discretion" it "subjectively" but "in good faith" believed that it could have been liable to Thune. The court concluded that Hindman had acted "in good faith" in rescinding the sale, for several reasons. First, the interests of Hindman and the Kohlers were the same: to sell the painting for as much as possible. Second, the side agreement with Thune — entered into at a time when Thune had doubts about the painting's authenticity — induced Thune to bid on the painting as though it were authentic, thereby increasing the amount he was willing to bid. Third, Hindman could have handled the matter in a different way that would have entitled it to a commission

from the Kohlers even if the painting were withdrawn from the auction, but Hindman chose not to do so.

Since Hindman had acted in "good faith," it did not breach the consignment contract, nor did it commit fraud. And the case had properly been dismissed on summary judgment, the appellate court concluded.

Kohler v. Leslie Hindman, Inc., 80 F.3d 1181, 1996 U.S.App.LEXIS 6583 (7th Cir. 1996) [ELR 18:7:29]

Briefly Noted:

Youth hockey organizations win Americans with Disabilities Act lawsuit filed on behalf of boy with Attention Deficit Disorder. Two youth hockey organizations have won an Americans with Disabilities Act lawsuit filed on behalf of an 11-year-old boy who

suffers from Attention Deficit Disorder. The boy's parents had asked U.S.A. Hockey (a nation-wide organization of youth hockey teams) and the Creve Coeur Hockey Club (the boy's local team) to accommodate the boy's condition by allowed his father or brother to be on the ice during practices and games and by permitting the boy to play with 8 and 9-year-olds rather than others his age. U.S.A. Hockey and the Club denied these requests, citing safety and insurance concerns. A federal District Court in Missouri has rejected the parents' request for a preliminary injunction and has dismissed the case entirely. Judge Webber did so, because the Americans with Disabilities Act applies only to "places of public accommodation," and the judge ruled that U.S.A. Hockey and the Creve Coeur Hockey Club are not such places. Even if they were such places, he said he would have denied the parents' request for a preliminary injunction, because although their boy would suffer

irreparable harm if he were not able to play, U.S.A. Hockey and the Club would suffer greater harm if ordered to make the requested accommodations. Also, the parents had not shown they were likely to prevail on the merits, because although the Act requires "reasonable accommodation," it does not require "undue . . . burdens" to be assumed nor does it require "a fundamental alteration in the nature of [the] program." Judge Webber concluded that the accommodations requested by the boy's parents would have required undue burdens and a fundamental alteration in the nature of the program. *Elitt v. U.S.A. Hockey*, 922 F.Supp. 217, 1996 U.S.Dist.LEXIS 4210 (E.D.Mo. 1996) [ELR 18:7:30]

Alabama Board of Education wins civil rights lawsuit filed by black student-athletes who lost a year of eligibility by transferring high schools. The

Board of Education of Montgomery County, Alabama, has won a civil rights lawsuit filed by several students who lost one a year of athletic eligibility when they transferred from predominantly black high schools to predominantly white high schools under the Board's "Majority to Minority Transfer Program." The program permits students to transfer from their local schools to other schools, if they are in the majority race in their local schools but in the minority at the schools to which they transfer. The program was first adopted in 1970 as part of a court-ordered desegregation effort, and most students who have transferred under the program have been black. After the program was adopted, it appeared that football and basketball coaches at white high schools were using the program to recruit black athletes. So the program was amended to require transferring athletes to sit out a year. The eligibility portion of the transfer program affected many more black athletes than

white ones, and thus the eligibility policy was challenged by three black football and basketball players under the Fourteenth Amendment and Title VI of the Civil Rights Act of 1964. That challenge has failed, however. Initially, Judge Harold Albritton granted a temporary restraining order and preliminary injunction that barred the Board of Education from enforcing the eligibility policy against the three student-athletes. But after a trial, the judge has ruled against the students and in favor of the Board; and he has dismissed the case. Judge Albritton found that although the Board knew the eligibility policy would affect more blacks than whites, the Board did not intend to discriminate against blacks. Moreover, although the policy has a disproportionate impact on blacks, the judge found that this was so only because "black students disproportionately exercise the privilege of using the [Majority to Minority transfer] program." He also found that "any adverse effect that Policy . . .

has on individual black students is offset by the fact that the educational advantages of preventing athletic recruiting in Montgomery County will accrue primarily to the benefit on the students in Montgomery's predominantly black . . . schools." Finally, Judge Albritton concluded that the Board had a substantial, legitimate justification for adopting the eligibility policy, because it was adopted to respond to concerns the transfer program was being used to facilitate athletic recruiting, and to help revitalize the county's black high schools. *Young v. Montgomery County Board of Education*, 922 F.Supp. 544, 1996 U.S.Dist.LEXIS 4431 (M.D.Ala. 1996) [ELR 18:7:30]

Court TV permitted to televise oral arguments in federal price discrimination case against Victoria s Secret Catalogue. Court TV was permitted to

tape and televise oral arguments in a class action lawsuit brought against Victoria's Secret Catalogue in federal District Court in New York City. The lawsuit, which attracted widespread news coverage, alleged that Victoria's Secret discriminated in the prices it charged to different classes of catalogue recipients. In May 1996, oral arguments were heard in connection with two motions: a motion to dismiss made by Victoria's Secret and its co-defendants, and a motion to amend the complaint made by the plaintiff. The defendants objected to Court TV's request for permission to televise the arguments. But Judge Robert Sweet ruled that the Local Rules of the Southern District of New York allow cameras in courtrooms of that district with "written permission" of the judge. Judge Sweet exercised his discretion to permit Court TV to televise arguments in the Victoria's Secret case, because doing so would not interfere with those proceedings, and because the First Amendment

considerations that supported Court TV's request outweighed the prejudice Victoria's Secret contended it might suffer from televising the arguments. *Katzman v. Victoria s Secret Catalogue*, 923 F.Supp. 580, 1996 U.S.Dist.LEXIS 5865 (S.D.N.Y. 1996) [ELR 18:7:30]

ASCAP-member music publishers obtain judgment in copyright infringement action against unlicensed radio station. Several ASCAP-member music publishers have been granted judgment in a copyright infringement action against an Alabama radio station, on account of the station's broadcast of songs without the necessary ASCAP license. Federal District Judge Richard Vollmer rejected the station owner's waiver and estoppel defenses, apparently based on ASCAP's "protracted efforts" to settle the case before filing suit. The judge also dismissed the station owner's

counterclaims for copyright misuse, antitrust violations and abuse of process. The judgment awards the publishers $5,000 for each song broadcast (totaling $20,000), attorneys fees and costs of more than $8,800, and an injunction against further infringements. *Dream Dealers Music v. Parker*, 924 F.Supp. 1146, 1996 U.S.Dist.LEXIS 9922 (S.D.Ala. 1996) [ELR 18:7:31]

Court permits attorney to withdraw as plaintiff s counsel in video piracy case and grants judgment and lien for unpaid legal fees. A federal Court of Appeals has affirmed an order permitting an attorney to withdraw as plaintiff's counsel in a video piracy copyright case pending in New York City. In an opinion by Judge Gerald Heaney, the appellate court also affirmed an award to the attorney for legal fees still owed to her by her former client, and an order granting the attorney a

retaining lien on legal files in her possession. The attorney was permitted to withdraw, because circumstances had made it impossible for her to effectively represent her former client. The appellate court agreed that the unpaid fees were owed and were reasonable, and that the District Court had properly exercised its ancillary jurisdiction by granting the attorney a judgment for those fees. *Joseph Brenner Associates, Inc. v. Starmaker Entertainment, Inc.*, 82 F.3d 55, 1996 U.S.App.LEXIS 8782 (2d Cir. 1996) [ELR 18:7:31]

Court affirms NLRB order that Blockbuster Pavilion committed unfair labor practice, but remands order that Blockbuster bargain with IATSE. The owner of Blockbuster Pavilion in Charlotte, North Carolina, has won a partial victory from a federal Court of Appeals in connection with an unconsummated effort

by IATSE to organize the company's stagehands. Though IATSE had collected authorization cards from a majority of the company's stagehands, Blockbuster refused to bargain with the union under circumstances that eventually led the NLRB to rule that Blockbuster had committed an unfair labor practice. The NLRB also ordered Blockbuster to bargain with IATSE, even though no election had yet taken place. On appeal, the court affirmed the NLRB's unfair labor practice ruling. But in an opinion by Judge James Buckley, the appellate court chastised the NLRB for ordering Blockbuster to bargain without taking into account events that occurred after the unfair labor practice had occurred and without adequately explaining why a bargaining order was proper even before an election had been conducted. *Charlotte Amphitheater Corp. v. N.L.R.B.*, 82 F.3d 1074, 1996 U.S.App.LEXIS 9932 (D.C.Cir. 1996) [ELR 18:7:31]

Previously Reported:

During the June to October break between terms of the United States Supreme Court, petitions for certiorari were filed in several entertainment industry cases previously reported in these pages. The Supreme Court has issued orders in response to those petitions — and in all but one case, has denied them.

The Supreme Court has granted a petition for certiorari filed by New Orleans area broadcasters who are challenging the constitutionality of a federal statute that prohibits radio and television advertising for casino gambling. The Fifth Circuit Court of Appeals rejected the broadcasters' challenge and upheld the statute (*ELR* 18:1:11), so broadcasters have reason to be heartened by the Supreme Court's order. However, the Supreme Court itself will not be hearing the broadcasters' appeal immediately. Instead, in the same order in which it

granted cert, the Supreme Court remanded the case to the Fifth Circuit for reconsideration in light of *44 Liquormart, Inc. v. Rhode Island* (*ELR* 18:2:6), the case in which the Supreme Court invalidated a state statute that prohibited liquor price advertising. *Greater New Orleans Broadcasting Ass n v. United States*, 117 S.Ct. 39, 1996 U.S.LEXIS 4616 (1996)

The Supreme Court has denied cert in an obscenity case in which the Sixth Circuit Court of Appeals upheld the criminal convictions of the operators of a computer bulletin board service on charges they had distributed obscene images in violation of federal law. (*ELR* 18:4:9) The most remarkable thing about the case was that the defendants' BBS was located in California, but they were prosecuted in federal court in Tennessee under that state's conservative "community standards" rather than under California's more liberal community

standards. *Thomas v. United States*, 117 S.Ct. 74, 1996 U.S.LEXIS 4789 (1996)

The Supreme Court has denied cert in a copyright case in which the Fourth Circuit Court of Appeals held that mannequins are protectible by copyright as sculptural works, even though mannequins perform a utilitarian function. (*ELR* 18:5:19) *Dan Chase Taxidermy Supply Co., Inc. v. Superior Form Builders, Inc.*, 117 S.Ct. 53, 1996 U.S.LEXIS 4654 (1996)

The Supreme Court has denied a petition for cert filed by former National Security Advisor Robert McFarlane in his libel lawsuit against Esquire Magazine. The D.C. Circuit Court of Appeals affirmed a trial court order dismissing McFarlane's suit on the grounds that Esquire had not published the offending article "with malice." (*ELR* 18:4:17) *McFarlane v. Esquire Magazine*, 117 S.Ct. 53, 1996 U.S.LEXIS 4657 (1996)

The Supreme Court has denied cert in a Communications Act case arising out of the defendants' unauthorized sale of cable-TV descramblers. The issue in the case was the amount of damages that cable TV companies can recover when they are successful. Two separate Communications Act sections deal with damages. One section authorizes much greater damages than the other, but that section appears on its face to apply to over-the-air signals only, not to cable signals. Nevertheless, the Second Circuit Court of Appeals held that both sections apply to cable signals; and thus the court affirmed an award of damages under the section that permits the greater amount. (*ELR* 18:5:19) *Noel v. International Cablevision, Inc.*, 117 S.Ct. 298, 1996 U.S.LEXIS 6165 (1996)

The Supreme Court has denied a petition for cert in a trademark case in which a federal District Court ruled that MCA Records' use of the label "Uptown

Records" for rap recordings does not infringe the trademark rights of an independent jazz label also known as "Uptown Records," because under the circumstances of the case there was no likelihood of consumer confusion between the two companies. (*ELR* 17:11:7) The Second Circuit Court of Appeals affirmed that ruling, without a published opinion. *Sunenblick v. Harrell*, 117 S.Ct. 386, 1996 U.S.LEXIS 6609 (1996) [ELR 18:7:32]

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[ELR 18:7:33]