BUSINESS AFFAIRS

Four Ways to Calculate Net Profits (Depending on Who s Asking)

by Schuyler M. Moore

Most people assume that there is one monolithic standard for calculating "net profits" for all purposes. When they hear that a film company has reported a certain amount of net profits for one purpose, they assume that the reported net profits applies for all purposes. This assumption is the genesis of many misconceptions, such as that film companies must be lying or "cooking the books" when they report inconsistent numbers for different purposes.

The truth is that film companies are permitted to calculate net profits differently for different purposes, and film companies have found a way to do the calculations differently for each purpose in a way that favors film companies for each purpose. The four different purposes for which net profits are calculated are as follows:

1. Calculating earnings based upon "generally accepted accounting principles" ("GAAP"), which is used for reporting earnings to the SEC, shareholders, and lenders.

2. Calculating income and loss for tax purposes.

3. Calculating payments to profit participants, such as writers and actors.

4. Calculating cash available to make distributions to equity holders, such as shareholders, of the film company.

Because film companies have a vested interest in making sure the calculations work to their advantage,

they have been active in determining how the calculations are made. This article briefly summarizes the major differences in the calculations for each purpose and the impact the differences have on the various calculations.

GAAP

The calculation of net profits for GAAP was the topic of a previous article that appeared in these pages (*Accounting for Profits in the Movie Business*, by Schuyler Moore (*ELR* 18:8:4)) so the rules are only briefly summarized here. These rules are generally found in Financial Accounting Standards No. 53, referred to herein as "FAS 53." In summary, the goal of film companies in applying GAAP is to report net profits as *high* as possible. This is achieved in a number of ways. First, and most importantly, a number of

debatable items are "capitalized," which means that the costs are *not* immediately deducted but are, instead, added to the cost of films. Capitalizing costs has two salutary benefits: First, it decreases current deductions, thereby increasing reported earnings. Second, it increases film costs reported as an asset on the balance sheet. GAAP rules for film companies permit the capitalization of development costs, production costs, the cost of making physical film prints, payments of participations to third parties, a portion of the company's overhead, and even the cost of abandoned film projects.

Another way to maximize reported earnings is to accelerate the date that income is reported. Under FAS 53, this is achieved by permitting film companies to report the present value of all payments to be made under a license as income as soon as the "availability date" has occurred, which is the date that the licensee can exploit the first showing or broadcast of the film under the

license. This allows film companies to report income years before it is actually received. For example, if a film company enters into a ten-year license providing for payments of $1 million per year, the film company will report the present value of the total payments of $10 million as current income upon entering into the license. This is contrary to the rule applicable to most industries; if the same transaction had involved the lease of real property, the annual payments would be reported as income each year, instead of being all reported as income in the first year.

Another key to maximizing reported earnings is to deduct film costs as slowly as possible. Under FAS 53, this is achieved by deducting film costs based on *estimated* future income. By maximizing the estimate of future income, film companies are able to defer writing off film costs as long as possible because FAS 53 requires film companies to match, as closely as possible, the

deduction of film costs with the receipt of income. For example, if a film costs $10 million, and is expected to earn $1 million per year for 20 years, for a total of $20 million, the film cost of $10 million would be deducted $500,000 per year for 20 years in order to match, as closely as possible, the deduction of the film costs with the estimated income. The estimate of future income is made by management, and they are under an irresistible impulse to make the estimate as high as possible in order to defer deductions as long as possible.

Tax

For tax purposes, the goal is to report net profits as *low* as possible. It is relatively easy to summarize the tax rules applicable to film companies; simply do the opposite of the rules for GAAP!

For example, for tax purposes, film companies are permitted to *deduct* many of the expenses that they capitalize for GAAP, including advertising, most overhead, and abandoned film projects. Similarly, for tax purposes, film companies do *not* follow the GAAP rule of recognizing all the future income under a license on the "availability date." Rather, for tax purposes the income is reported each year when it is payable. Using the example discussed above of a ten-year license for $1 million per year, for GAAP the present value of the total payments is reported as income upon entering into the license. However, for tax purposes, the annual payments are reported each year.

Further, while the goal under GAAP is to defer the deduction of film costs by *over*-estimating future income, the goal for tax purposes is to *under*-estimate future income, as this will accelerate deductions, and there is no requirement that the two estimates match. Thus,

film companies have been notorious for under-estimating future income for tax purposes, in order to accelerate the deduction of film costs. This practice was changed somewhat by the 1996 Tax Act, which required film companies to include in their estimates all income for the first ten years from the date the films are released, with a retroactive interest charge added to the film company's tax liability if the estimates prove too low in practice.

Paying Profit Participants

As with calculating net profits for tax purposes, the goal of calculating net profits for purposes of paying profit participants is to report net profits as low as possible. Unlike the tax calculation, however, which is governed by statute, the concept of net profits for purposes of paying profit participants is entirely a contractual

animal, although these contracts tend to follow a standard industry pattern.

With respect to gross receipts, the goal is to report as little and as late as possible, and this is achieved by a number of contractual definitions permitting generous reserves, exclusions, and allocations. For example, a film company may receive a large cash advance from a television network for the right to show a film several times over a three-year period to commence in two years. Most film companies do not report the advance as gross receipts until commencement of the three year television term after two years, and even then the advance is accrued in income pro rata over the three year term of the license.

For video gross receipts, it is common to partially offset gross receipts with a large reserve for potential refunds. In addition, it is common to sell or license films in packages, and it is common to allocate gross receipts

away from the winning films to the turkey films, for which no participations will be payable. Further, there are certain sources of income, such as theme parks, that are simply excluded entirely from being included in gross receipts.

The goal with respect to distribution expenses is to report as early and as much as possible. This is achieved by a number of means, including high internal fees, early accruals of expenses, payments to affiliates, overhead allocations, and deemed interest. Film companies also take a huge slice of gross receipts off the top as their distribution fee. When all else fails, the contracts always permit film companies to siphon off income through affiliates.

The important point is that the definition is purely contractual. People often assume that "net profits" for purposes of paying profit participants must be grounded upon accounting, not contractual, principles. In truth, the

common contractual reference to this calculation as "net profits" is a misnomer; it would be more accurate to refer to this calculation as "potential contingent compensation payable by contract."

Distributions To Equity Holders

The final calculation of net profits relates to how much cash is actually distributed to equity holders, such as shareholders, in the form of dividends or similar distributions. This calculation is more complex than the others in that it is a function of several variables. The first variable is the amount of actual cash on hand (net of reserves for expenses, debts, and the like), as most distributions are made in cash.

The next variable is contractual — namely, the provisions of the governing corporate documents, such as the articles and bylaws for a corporation, the

partnership agreement for a partnership, and the operating agreement for a limited liability company. These governing documents will usually have provisions dealing with distributions, ranging all the way from requiring a minimum specified level of distributions each year all the way to granting management unbridled discretion to reinvest net profits in other businesses. Thus, the provisions of these governing documents must always be consulted to determine if a distribution can or must be made and, if so, the amount of the distribution.

Most film companies wish to retain their profits for the purpose of reinvesting in other films or in related, or even unrelated, businesses. Thus, the governing documents of most film companies, particularly the larger ones, grant management unbridled discretion to reinvest profits. The amount of net profits, if any, that are actually distributed is then left solely to the discretion of management.

The third variable is statutory; most states have statutes that prohibit distributions while an entity is "insolvent" (defined in various ways). These statutes serve as a ceiling on the amount of any permissible distributions.

Conclusion

The consequence of all this is that as the Red Queen said in Alice In Wonderland, "a word means what I say it means." When the words "net profits" are bantered about, ask for what purpose it is being calculated. By knowing the purpose, you will know the biases inherent in the calculation and can take the proffered number with the appropriate grain of salt. [ELR 18:12:4]

RECENT CASES

Supreme Court upholds constitutionality of Cable TV Act s must-carry rules

It took five years of litigation and four lengthy judicial decisions — two by the Supreme Court itself — but finally the question has been resolved: the "must-carry" provisions of the Cable Television Consumer Protection and Competition Act of 1992 are constitutional. The United States Supreme Court has so held.

The "must-carry" provisions of the Cable TV Act require cable systems to carry the over-the-air signals of local television stations, without charge to those stations. The Turner Broadcasting System and several other cable programmers and cable system operators challenged the constitutionality of the "must-carry"

rules, contending that the rules violate their First Amendment free speech rights.

In the first round of the challenge, a three-judge panel upheld the constitutionality of the "must-carry" rules (*ELR* 15:2:8). Though the court granted summary judgment to the government, the difficulty of the issue was reflected in the panel's decision: each of the three judges wrote his own opinion, and one of the opinions was a dissent.

The case then proceeded directly to the Supreme Court which affirmed the correctness of the legal standard that the lower court had used: the "intermediate level of scrutiny" standard, rather than the higher level of scrutiny that had been urged by Turner and its co-plaintiffs (*ELR* 16:4:16). Again, however, the difficulty of the issue was reflected in the Court's decision. Justice Stevens would have sustained the constitutionality of the "must-carry" rules on the record as it then existed

and been done with the case. Four other justices would have declared them unconstitutional. The remaining four Justices said they could not reach a conclusion on the rules' constitutionality without further evidence. And so, with Justice Stevens' concurrence, they remanded the case to the lower court for further consideration of two questions. The first was whether the record compiled by Congress during the legislative process supported its prediction that the "must-carry" rules are necessary to advance "important governmental interests." And the second was whether the rules burden free speech only to the extent necessary to advance those interests.

The lower court answered both questions "yes," but just barely (*ELR* 18:3:4). One judge would have answered them "no." Another judge thought a trial was necessary to answer them. And only one judge felt they could be answered without trial. In order to avoid a stalemate, the judge who thought a trial was necessary

joined with the judge who concluded the rules are constitutional. So that is what the lower court held.

When the case got back to the Supreme Court, it affirmed. In a 5-to-4 ruling by Justice Anthony Kennedy, the Court held that: protecting over-the-air local television stations is an important governmental interest; substantial evidence supported Congress' prediction that if the "must-carry" rules were eliminated, many local stations would be dropped by cable systems or denied cable carriage in the first place; the "must-carry" rules addressed this problem directly and effectively; and the rules did not burden substantially more speech than necessary to accomplish their goals.

Turner Broadcasting System, Inc. v. Federal Communications Commission, 117 S.Ct. 1174, 1997 U.S.LEXIS 2078 (1997) [ELR 18:12:7]

Lender s law firm not negligent for failing to perfect security interests in movie distribution proceeds, because loan to MCEG took place before Peregrine Entertainment case first held that copyright mortgages must be recorded with Copyright Office in order to perfect security interests in movie proceeds, New York court rules in dismissing malpractice lawsuit

In 1989, Credit du Nord loaned MCEG Productions $4.5 million which MCEG later repaid. Nevertheless, several years later, that loan became the subject of a legal malpractice lawsuit against Phillips Nizer Benjamin Krim & Ballon, the law firm that had represented Credit du Nord in connection with the loan.

The malpractice lawsuit alleged that Phillips Nizer had negligently failed to perfect the Credit du Nord's security interest in the collateral that MCEG had

given for the loan. But the 1989 loan was made a full year before the *Peregrine Entertainment* case (*ELR* 12:5:12) first explained what had to be done in order to perfect such security interests.

Therefore, New York state court Judge David Saxe has dismissed the suit against Phillips Nizer. The judge explained that the firm did not have a duty "to anticipate future caselaw," and thus it did not breach any duty to its client by failing "to take all actions necessary to avoid any legal challenge [to the lender's security interest], even if such challenge would be unsupported by legal authority then existing."

The collateral given to Credit du Nord by MCEG in 1989 in return for its $4.5 million loan was a security interest in the proceeds from a distribution deal MCEG had made with Viacom involving television and homevideo rights to three movies, "Boris and Natasha," "Limit Up" and "Getting It Right." In that deal, Viacom

promised to pay MCEG a $1.5 million guarantee on its delivery of each completed movie. Credit du Nord sought to perfect its security interest by filing a UCC-1 financing statement with the California Secretary of State. However, Credit du Nord apparently did not get a mortgage on the movies' copyrights and thus did not record Copyright Mortgages with the Copyright Office.

Banks routinely file UCC-1's in order to perfect security interests in intangibles, including receivables. And in 1989 — when Credit du Nord made its loan to MCEG — UCC-1's were all that some banks were using to perfect security interests in movie distribution proceeds too. A UCC-1 was all that Capitol Federal Savings used to perfect its security interest in movie distribution proceeds to be received by one of its customers, Peregrine Entertainment, when Capitol lent money to it. But when Peregrine later went bankrupt, the company's unsecured creditors persuaded Judge Alex

Kozinski (temporarily sitting as a Bankruptcy Court judge) that in order to perfect a security interest in movie distribution proceeds, it is necessary to record a Copyright Mortgage in the Copyright Office, rather than a UCC-1 in the Secretary of State's office. Though Judge Kozinski's 1990 ruling in the *Peregrine* case was not without its critics, it was followed by another judge in a subsequent bankruptcy case involving Atlantic Entertainment Group (*ELR* 13:8:9) and that ruling was affirmed by the Ninth Circuit Court of Appeals (*ELR* 16:3:14), so by now it is quite well-settled that recorded Copyright Mortgages are necessary to collateralize movie loans — though this wasn't as clear when Credit du Nord made its loan to MCEG in 1989.

Since that loan was not perfected by recording a Copyright Mortgage in the Copyright Office, a dispute arose over whether Credit du Nord could keep the money MCEG had repaid it. Credit du Nord settled that

dispute by giving up $2.8 million of the money it had been repaid. That appears to have been the damage Credit du Nord suffered as a result of Phillips Nizer's alleged malpractice.

MCEG Sterling v. Phillips Nizer Benjamin Krim & Ballon, 646 N.Y.S.2d 778, 1996 N.Y.Supp.LEXIS 297 (Sup. 1996) [ELR 18:12:7]

Writer David Kaplan is entitled to trial on claim that he is co-owner of copyright to memoirs of former baseball commissioner Fay Vincent, and on claim that Vincent fraudulently induced Kaplan to work on manuscript, federal court rules in denying Vincent s motion to dismiss those claims; court does dismiss Kaplan s breach of contract and quantum meruit claims, however

Most readers of these pages will recognize the name Fay Vincent. Among other things, he used to be the Commissioner of Baseball. Some readers will recognize the name David Kaplan too. He is a senior writer for *Newsweek* magazine, specializing in legal affairs. Once, Vincent and Kaplan were friends. Now they are adversaries in a lawsuit. The dispute arose out of their collaboration on Vincent's memoirs of his days as Baseball Commissioner — memoirs which Vincent has decided he no longer wants to publish.

Vincent made this decision after he and Kaplan had signed a publishing contract with Little, Brown and Company, and after Kaplan took an unpaid leave of absence from *Newsweek* and wrote 90% of the book. This at least is what Kaplan has alleged in a complaint filed in federal court in New York City in which he seeks: a declaration that he is co-owner of the copyright to

Vincent's memoirs and thus may publish them without Vincent's permission; damages because Vincent allegedly fraudulently induced him to work on the manuscript; damages for Vincent's breach of the Little, Brown contract; and damages for unjust enrichment. Vincent responded to Kaplan's complaint with a motion to dismiss, a portion — but only a portion — of which has been granted.

Judge Barrington Parker has dismissed Kaplan's breach of contract claim, on the grounds that the Little, Brown publishing agreement created no obligations between Vincent and Kaplan, and Kaplan is not a third party beneficiary of that contract. The judge also dismissed Kaplan's quantum meruit claim against Vincent, because Vincent received no benefit from Kaplan's work on the manuscript, and because Kaplan did not actually finish the manuscript.

On the other hand, Judge Parker has denied Vincent's motion to dismiss Kaplan's claim for a declaratory judgment that he is the co-owner of the manuscript's copyright and may publish it without Vincent's consent. In support of his motion, Vincent cited unsigned drafts of a collaboration agreement between them — drafts which indicated they may have orally agreed that Vincent could terminate their collaboration, and that if he did, neither could not publish material contributed by the other without consent. However, the judge refused to rely on those unsigned drafts as a basis for dismissing Kaplan's claim, because certain evidence suggested that Kaplan and Vincent did not intend to be bound by the written collaboration agreement unless and until it was signed; and it wasn't.

Judge Parker also denied Kaplan's counter-motion (for partial summary judgment) on the co-ownership issue, because there was conflicting evidence

about whether Vincent intended to become a joint author with Kaplan; and in the Second Circuit, both authors must intend to become co-authors in order for that to be the result for copyright ownership purposes.

Finally, the judge denied Vincent's motion to dismiss Kaplan's fraud claim, ruling that the complaint adequately alleged that Vincent had fraudulently induced Kaplan to work on the manuscript.

Kaplan v. Vincent, 937 F.Supp. 307, 1996 U.S.Dist. LEXIS 13396 (S.D.N.Y. 1996) [ELR 18:12:8]

Appellate court affirms dismissal of copyright infringement case against New England Patriots and NFL Properties brought by fan who submitted design for Patriots new logo, because logo adopted by

team was created by professional designer who did not have access to fan s submission

James Grubb is a New England Patriots fan (or at least, once was). So in 1993, when Grubb learned the Patriots were looking for a new logo, he sent them one he had designed. When the team's new logo was unveiled, it was similar to his, Grubb thought, but he was not given credit for designing it. Instead, the Patriots said their new logo had been designed by a professional artist hired by NFL Properties.

Grubb then registered the copyright to his design and sued the Patriots and NFL Properties for infringement. When the District Court granted the defendants' motion for summary judgment (*ELR* 18:2:10), Grubb appealed; but he has lost once again. In a decision by Chief Judge Juan Torruella, the Court of Appeals has agreed that the evidence showed that the professional

artist hired by NFL Properties had not had access to Grubb's design before the artist created the logo the Patriots eventually adopted, and this alone was sufficient "to justify summary judgment."

Grubb had placed great emphasis on similarities he saw between his design and the Patriots' new logo. But "similarity alone cannot lead to a finding of copying, without evidence of access prior to the allegedly offending work's creation," Judge Torruella explained.

Though Grubb lost his case, it did bring him at least a sliver of artist immortality. His design is reproduced (along with various versions of the Patriots' logo) as an Appendix to the appellate court's decision, where it will remain forever on the shelves of thousands of law libraries.

Grubb v. KMS Patriots, L.P., 88 F.3d 1, 1996 U.S.App. LEXIS 14892 (1st Cir. 1996) [ELR 18:12:9]

Playboy obtains order requiring Italian publisher to shut down or block U.S. access to Playmen Internet site; court holds that Internet site located in Italy violates injunction granted to Playboy in 1981 barring publisher from distributing Playmen publications in U.S.

Playboy Enterprises has obtained an order from a United States District Court in New York City that requires an Italian publisher to shut down its “Playmen” Internet site, or to block access to the site from the United States, because even though the site is on a computer located in Italy, it violates an injunction issued in 1981 barring the publisher from distributing publications and related products in the U.S. using the “Playmen” name.

The 1981 injunction was the remedy granted to Playboy in a lawsuit it had filed against the publisher and distributor of "Playmen," an Italian "male sophisticate magazine." In that case, a federal District Court held that the Italian magazine infringed Playboy's trademark, and a Court of Appeals affirmed that judgment (*ELR* 3:10:6, 4:20:4). Playboy obtained similar injunctions from courts in England, France and Germany, but an Italian court held that "Playboy" was a weak mark and thus was not entitled to protection there. As a result, the magazine's publisher — Tattilo Editrice, S.p.A. — continued to publish "Playmen" in Italy, and established a "Playmen" Internet site there in 1995 or '96.

Though physically located on a computer in Italy, the site — http://www.playmen.it — was accessible from the United States, and Playboy brought contempt proceedings against Tattilo in the United States. Judge

Shira Scheindlin agreed with Playboy and has held Tattilo in contempt.

The judge ruled that although the publication of pictorial images on the Internet could not have been contemplated when the injunction was issued in 1981, that "does not prevent the Injunction from applying to the modern technology of the Internet and the World Wide Web." Judge Scheindlin ruled that even though the 1981 injunction did not "refer to the Internet by name," it still could apply to the Internet. "Injunctions entered before the recent explosion of computer technology must continue to have meaning," she reasoned.

Tattilo argued that even if the injunction applies to the Internet, it did not violate the injunction, because it was "merely posting pictorial images on a computer server in Italy, rather than distributing those images to anyone within the United States." According to Tattilo, "A computer operator wishing to view these images

must, in effect, transport himself to Italy to view [its] pictorial displays. The use of the Internet is akin to boarding a plane, landing in Italy, and purchasing a copy of Playmen magazine, an activity permitted under Italian law."

Judge Scheindlin was not persuaded, however. "By inviting United States users to download these images, Tattilo is causing and contributing to their distribution within the United States," the judge held. "While this Court has neither the jurisdiction nor the desire to prohibit the creation of Internet sites around the globe, it may prohibit access to those sites in *this* country. Therefore . . . Tattilo must either shut down [the Playmen site] completely or prohibit United States users from accessing the site in the future."

Editor s note: Playboy has become a true champion in the battle against digital infringements. It seems to pick its cases carefully and does a good job with

them, because Playboy is now 3-for-3 in precedent setting decisions involving digital issues. In addition to this case, Playboy won the first copyright infringement in cyberspace lawsuit, *Playboy v. Frena* (*ELR* 16:4:10), and the first copyright infringement by CD-ROM case, *Playboy v. Starware* (*ELR* 18:2:13). For its part, Tattilo may have achieved a technological accomplishment; it may have figured out how to keep its site up while merely blocking access from the United States. A Yahoo search for "playmen" done after this decision was rendered turned up "Playmen Italian magazine"; but an attempt to access that site (from Santa Monica) resulted in a message saying "The site was not found."

Playboy Enterprises, Inc. v. Chuckleberry Publishing, Inc., 939 F.Supp. 1032, 1996 U.S.Dist.LEXIS 8435, 9865 (S.D.N.Y. 1996) [ELR 18:12:9]

Court refuses to dismiss suit brought by Simon & Schuster and William Bennett alleging that their Book of Virtues trademark is infringed by Dove s The Children s Audiobook of Virtues

Former Education Secretary William Bennett struck it rich when Simon & Schuster published his collection of public domain fables, essays and musings entitled *The Book of Virtues* in November 1993. The book's enormous success prompted Simon & Schuster to bring out a series of sequels and spinoffs, so that fewer than two years later, it was estimated that Bennett had already earned some $5 million.

Of course, this much success attracted the attention of others, including Dove Audio, Inc., a company that publishes books on tape. By early 1995, Dove planned to release *The Children s Audiobook of Virtues* — a tape whose title was reminiscent of Bennett's

original book and virtually identical to that of one of Simon & Schuster's planned spinoffs, a book to be called *The Children s Book of Virtues*.

Simon & Schuster and Bennett sued, but Dove didn't back down. Instead, Dove demonstrated its disdain for the claims made against it by responding with a motion for judgment on the pleadings, arguing in effect that even if Simon & Schuster and Bennett proved everything they alleged, they still would not be entitled to prevail.

Alas, in the eyes of federal District Judge Allen Schwartz, the case has more virtue than Dove gave it credit for. Judge Schwartz has denied Dove's motion and permitted the case to proceed.

Dove had argued that "books of virtues . . . have been a literary convention since the days of St. Thomas Aquinas and his published work 'Of Virtues.'" Thus, said Dove, the titles at issue in the case are generic and

unprotectible because they "precisely describe the contents of the works. . . ." Judge Schwartz disagreed, however. He ruled that "'The Book of Virtues' mark does not fall into the generic category. . . ."

Instead, the judge found the mark to be "descriptive." As such, it was entitled to protection if, but only if, it had acquired secondary meaning. Dove argued that it had not. But the judge noted that Simon & Schuster and Bennett had alleged facts which if proved would establish that the mark has secondary meaning. Ultimately, they would have the burden of proving those facts, but the judge ruled that it would be "premature, if not incorrect" to find that the title lacks secondary meaning based exclusively on the pleadings.

Dove also argued that since the lawsuit involved the title to an "artistic work," Simon & Schuster and Bennett would have to have to make a "particularly compelling" showing of likelihood of confusion in order

to overcome Dove's First Amendment right to use the title of its choice; and Dove argued they would be unable to meet this high standard as a matter of law. While Judge Schwartz seemed to agree that Simon & Schuster and Bennett would have to meet the "particularly compelling" standard, he couldn't say, at that point in the case, they would be unable to do so.

Simon & Schuster, Inc. v. Dove Audio, Inc., 936 F.Supp. 156, 1996 U.S.Dist.LEXIS 12609 (S.D.N.Y. 1996) [ELR 18:12:10]

Ringling Bros.-Barnum & Bailey gets mixed results in trademark dilution suits that seek to prevent others use of phrases similar to The Greatest Show on Earth ; circus company overcomes motion to

dismiss in one case, but preliminary injunction sought by it in second case is denied

Ringling Bros.-Barnum & Bailey has been in the circus business for well over a century, and for much of that time it has immodestly referred to its productions as "The Greatest Show on Earth." The company registered that famous phrase as a federal trademark back in 1961, and has what appears to be a vigorous trademark enforcement program. Until recently, however, federal trademark law required proof of a "likelihood of confusion" — a standard that could not always be met when offending uses were far afield from the trademark owners' own business.

In 1995, however, that changed. Congress amended the Trademark Act to add provisions that give the owners of "famous marks" protection against the "dilution" of their marks (*ELR* 17:10:12). This expanded

the rights of trademark owners considerably, because "dilution" may result whenever there is a "lessening of the capacity of a famous mark to identify and distinguish goods or services." And Congress made it clear that dilution can be found even in cases where there is no likelihood of confusion.

Equipped with this new law, Ringling Bros. set out to prevent others from using phrases that are similar to "The Greatest Show on Earth" on the grounds that those uses will dilute its trademark. One target of the circus company's complaints is the state of Utah which for several years has used the phrase "The Greatest Snow on Earth" on its license plates and in advertisements and other promotions that seek to attract visitors to the state's resorts. The other target is the owner of "The Greatest Bar on Earth," a new bar on the 107th floor of New York City's World Trade Center. Both

cases are in preliminary stages only, and thusfar Ringling Bros. has gotten mixed results.

Utah made a motion to dismiss the circus company's lawsuit entirely, arguing that the new anti-dilution provision of the Trademark Act only gives trademark owners the right to prevent the use of identical marks. Since Utah's phrase contains the word "Snow" where Ringling Bros.' mark contains the work "Show," the state's mark is not identical, and thus not a violation of federal law, Utah contended. Federal District Judge Thomas Ellis has disagreed, however. In a succinct opinion that emphasizes the wording of the anti-dilution amendment itself, the judge has ruled that an offending mark may infringe a trademark owner's anti-dilution rights even though it is not identical to the famous mark. As a result, Judge Ellis has denied Utah's motion to dismiss.

In its case against Utah, Ringling Bros. had not sought a preliminary injunction, so Judge Ellis did not have to evaluate the merits of Ringling Bros. claim. And he didn't.

However, in its case against the World Trade Center bar, Ringling Bros. did seek a preliminary injunction — without success. Federal District Judge Shira Scheindlin agreed that non-identical phrases could infringe anti-dilution rights if used in a related business. In this case however, "The Greatest Bar on Earth" was engaged in a business that is not related to circuses, nor is it identical to "The Greatest Show on Earth." Moreover, after applying a multi-factor analysis for likelihood of dilution, Judge Scheindlin concluded that Ringling Bros. had not demonstrated a likelihood that the bar's name would dilute the circus company's mark. For these reasons, the judge has denied Ringling Bros.' motion for a preliminary injunction.

Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development, 935 F.Supp. 763, 1996 U.S.Dist.LEXIS 13304 (E.D.Va. 1996); *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Corp.*, 937 F.Supp. 204, 1996 U.S.Dist.LEXIS 9778 (S.D.N.Y. 1996) [ELR 18:12:11]

Owner of The Sports Authority retail stores is entitled to trial in trademark and dilution suit against owner of similarly-named restaurant chain, Court of Appeals rules in decision reversing summary judgment that had dismissed the case

A federal Court of Appeals has pumped new life into a trademark infringement and dilution lawsuit filed by The Sports Authority, a sporting goods and apparel

retailer, against Prime Hospitality Corp., the owner of a chain of sports-themed restaurants called "Sports Authority Food, Spirits & Sports."

Earlier in the case, District Judge John Martin had granted Prime Hospitality's motion for summary judgment, because after applying a multi-part analysis of the likelihood of confusion, he concluded there were no issues of fact requiring a trial. Judge Martin concluded, in other words, that reasonable jurors could not find a likelihood of confusion. He also dismissed The Sports Authority's dilution claim brought under New York state law. (*ELR* 17:1:19)

However confusion, and its likelihood, are in the eye of the beholder. And what Judge Martin found reasonable jurors could not do, a panel of federal appeals court judges found they could.

The Sports Authority appealed the dismissal of its case. And on appeal, three judges — applying the same

eight factors that had been used by Judge Martin — concluded that five factors weighed in favor of The Sports Authority and only three in favor of Prime Hospitality. As a result, in a decision by Judge John Walker, the appellate court ruled that summary judgment should not have been granted, and it remanded the case to the lower court for further proceedings.

The appellate court also reversed and remanded the dismissal of The Sports Authority's dilution claim.

Sports Authority, Inc. v. Prime Hospitality Corp., 89 F.3d 955, 1996 U.S.App.LEXIS 18138 (2d Cir. 1996) [ELR 18:14:11]

Court denies Disney s motion to dismiss case alleging The Lion King and other videos contain sexual messages unsuitable for young children; complaint

adequately pleads breach of warranty and fraud, and First Amendment defense requires further proceedings

According to Janet Gilmer, the video of "The Lion King" contains a subliminal scene in which milk-weed particles form the word "Sex"; "The Fox and the Hound" contains a subliminal scene in which a character gives "the finger" to the camera; and the cover of the box for "The Little Mermaid" shows an erect penis. Ms. Gilmer made these allegations in a class action complaint filed in Arkansas against Walt Disney Pictures and Television and Buena Vista Home Video.

Improbable though the allegations seem, the case has turned serious. After Disney and Buena Vista successfully removed the case from state to federal court, over Gilmer's objections (*ELR* 18:4:7), they sought to have it dismissed on First Amendment and other

grounds. But Judge Franklin Waters has denied the motion, and so the case will proceed.

Gilmer's complaint alleges claims for negligence, fraud, invasion of privacy and breach of warranty. Disney asserted a First Amendment defense, arguing that since movies are speech, none of the tort claims could succeed. Gilmer, however, responded that the First Amendment does not apply to "subliminal" speech, citing cases involving Judas Priest (*ELR* 12:5:19) and Ozzy Osbourne (*ELR* 13:4:5). Judge Waters agreed that in those two cases, "the court felt the proper characterization of the message as being subliminal or not was important to the court's analysis of the First Amendment issues." Though Disney argued that the offending material was not subliminal, the judge concluded he couldn't decide whether it was or not on the basis of a motion to dismiss. And for that reason, Judge Waters denied Disney's motion.

The judge also denied Disney's motion to dismiss Gilmer's breach of warranty and fraud claims. He ruled that the allegations of her complaint were sufficient to withstand dismissal, though he said he would determine later whether the warranty claim could withstand a motion for summary judgment.

Disney did achieve one small measure of success. Judge Waters dismissed the case against Walt Disney Pictures and Television, saying he did not have personal jurisdiction over that company. It does not do business in Arkansas, and the "relationship created by the mere act of producing a film or motion picture is not sufficient to satisfy the requirements of due process," he explained. Thus the case will proceed against Buena Vista Home Video alone.

Gilmer v. Buena Vista Home Video, Inc., 939 F.Supp. 665, 1996 U.S.Dist.LEXIS 13737 (W.D.Ark. 1996) [ELR 18:12:12]

NFL s Raiders received $19 million during 1980s that should have been reported as income, but wasn t; Tax Court rejects Raiders argument that money received from L.A. Coliseum and Irwindale as loans and from Oakland as inverse condemnation damages was not taxable income

National Football League teams earn money by selling admission tickets, renting luxury boxes, licensing broadcasts of their games, and selling or licensing merchandise bearing team names and logos. Some teams also make money from concession stand sales and parking at their home stadia. For federal income tax

purposes, all of this money is taxable, because the Internal Revenue Code defines "gross income" very broadly to include income "from whatever source derived."

During the 1980s, the NFL's Raiders had income from these usual sources, and almost $19 million in additional receipts from three unusual sources as well. Between 1982 and 1986, the Raiders received $6.7 million in loans from the Los Angeles Memorial Coliseum Commission in connection with the team's move to Los Angeles from Oakland. In 1988 and 1989, the Raiders received $2 million from Oakland to settle an inverse condemnation suit the team had filed against that city in response to a suit Oakland had filed against the team in an effort to keep the Raiders from moving to Los Angeles. And in 1988, the Raiders received $10 million from Irwindale as an advance against a $115 million loan for the construction of what was to have been a new stadium in that city.

The Raiders did not report any of this money as taxable income, and when the IRS asserted that it should have been reported as income, the Raiders (and limited partners in the partnership that owns the team) filed suit in Tax Court challenging the IRS's position. The Tax Court, however, has rejected the Raiders' arguments, so the Raiders' limited partners will now have to pay taxes on some $19 million in additional income.

The Raiders argued that the loans from the L.A. Memorial Coliseum Commission were not taxable income, because ordinarily, "loans" are not taxable. In this case, however, the loans were "without recourse" to the Raiders and were to be repaid "solely" out of receipts from the rental of suites inside the Coliseum that were to have been built by the Raiders. The deal gave the Raiders discretion to decide if and when the suites would be built. As things turned out, the Raiders didn't build the suites or repay the loans. And though the

Coliseum Commission sued the Raiders, the lawsuit was settled with a mutual release. The Tax Court held that under these circumstances, "an unconditional and enforceable debt did not exist for tax purposes" when the loans were made; and thus the Court agreed with the IRS that the loans were taxable income when they were made.

The Raiders argued that the money the team received from Oakland in settlement of the Raiders' inverse condemnation suit was not taxable, because it was compensation for damage to the Raiders' "goodwill" and as such was not "income." While compensation for injury to goodwill is not income for tax purposes, the Tax Court concluded that the "preponderance of the evidence" showed that the damages sought by the Raiders were really for lost revenues and extra expenses suffered by the Raiders as a result of the injunction Oakland had obtained in the city's suit against the team

which delayed the Raiders' eventual move to Los Angeles. As such, the settlement proceeds from the Raiders' counter-suit against Oakland were taxable income, the Tax Court ruled.

After the Raiders moved from Oakland to Los Angeles and had played in the L.A. Coliseum for several years, the Raiders made a deal with Irwindale to build a stadium in that city and to play the team's home games there. As part of that deal, the Raiders signed a $115 million note, and Irwindale advanced the Raiders $10 million. The Raiders note was "non-recourse," and was to repaid "exclusively" from stadium revenues. Irwindale had planned to sell bonds to raise the $115 million it was going to lend the Raiders to build the stadium; but that plan was blocked by the California legislature when it enacted a law in 1988 that prohibited cities from using general obligation bonds to build stadiums that would be turned over to any private company. A lawsuit was filed

to compel the Raiders to repay the $10 million that had already been advanced. But in the answer the Raiders filed in that case in 1988, the team took the position that it was "entitled to retain that money whether or not the stadium is built." And sure enough, when the case was later settled, the Raiders "were not required to repay the initial $10 million received from Irwindale." The Tax Court ruled that the $10 million advanced to the Raiders was not income when the money was advanced, because it was simply a loan when the deal was first made. But "income" is realized when the obligation to repay a loan is "discharged." That happened in 1988, the Tax Court held, so the Raiders should have recognized $10 million in "discharge of indebtedness income" in that year.

The Raiders also took a $400,000 "bad debt" deduction in 1986, on account of money that was owed but not paid by Bob Speck Productions for television and radio rights to certain games. While the Internal

Revenue Code does permit taxpayers to deduct debts that become worthless, taxpayers bear the burden of proving the debt became worthless during the year in which the deduction is taken. In this case, the Raiders did not sue Bob Speck Productions in 1986 and continued to do business with the company for years afterward. The Tax Court therefore held that the Raiders had not shown a basis for "abandoning any hope of recovery of $400,000 of the Speck debt in 1986," so the court sustained the IRS's disallowance of the Raiders' bad debt deduction for that year.

Milenbach v. Commissioner of Internal Revenue, 106 T.C. 184, 1996 U.S. Tax Ct. LEXIS 8 (1996) [ELR 18:12:12]

NFL defeats lawsuit by Dallas Cowboy player Clayton Holmes challenging his suspension by NFL after failing a drug test; court rejects Holmes constitutional, federal and state law claims

The National Football League has defeated an aggressive three-pronged attack on its drug program — an attack mounted by Dallas Cowboy player Clayton Holmes. Judge Sidney Fitzwater, of the federal District Court in Dallas, has dismissed a lawsuit filed by Holmes as a result of being suspended after failing a drug test.

Ironically, Holmes' troubles began after he became a free agent and began talks with the Detroit Lions. The Lions told him he had to take a urine test "solely" to see whether he had been using steroids, Holmes later alleged. The test revealed Holmes had been using marijuana, and as a result, he was involuntarily enrolled in the NFL drug program. In follow-up tests,

Holmes tested positive for drugs again, and he was suspended for four games.

Holmes appealed his suspension, and had a hearing before Commissioner Paul Tagliabue, as provided in the NFL collective bargaining agreement. But the Commissioner affirmed the suspension, and Holmes then sued.

In his lawsuit, Holmes asserted that his hearing before the Commissioner had not satisfied the "due process" standards required by the Constitution. But Judge Fitzwater ruled that since the arbitration had been conducted pursuant to a provision of a privately negotiated collective bargaining agreement, "the arbitrator is not deemed to be a government official or the equivalent, and constitutional rights do not apply."

Holmes also claimed that the Commissioner had not followed procedures required by the collective bargaining agreement itself, and had thus breached the

bargaining agreement in violation of federal labor law. Again Judge Fitzwater disagreed. Holmes had not alleged that the Commissioner's decision was the result of fraud, dishonesty, bad faith or misconduct. Since these are the only grounds for setting aside a labor arbitrator's decision, the judge ruled that Holmes had failed to state a breach of contract claim on which judicial relief could be granted.

Finally, Holmes had asserted various tort law claims under Texas state law. But Judge Fitzwater ruled that these claims were preempted by federal labor law.

Holmes v. National Football League, 939 F.Supp. 517, 1996 U.S.Dist.LEXIS 12496 (N.D.Tex. 1996) [ELR 18:12:14]

Dispute between Pebbles and concert promoter is ordered to arbitration, as sought by Pebbles, even though she had not signed contract form containing arbitration clause

Parties to a written contract usually express their agreement with its terms by signing it, but not always. Sometimes other behavior suffices, especially in show business. This principle is nicely illustrated in an Indiana appellate court ruling issued in a case involving a dispute between Pebbles and the promoter of a concert that was to have taken place at the Fort Wayne Memorial Coliseum in July 1991. Pebbles' agency, ICM, got sucked into the dispute as well.

According to the deal made on her behalf, Pebbles was to perform at the concert in return for a $12,500 guarantee, half payable when the deal was made and half just before the concert, plus a percentage

of the gate. The contract form prepared to document the deal contained three clauses that became especially important. One provided that the balance of Pebbles' guarantee was to be paid by "certified check, money order, bank draft, or cash . . . prior to performance . . . or act will not perform." Another provided that any dispute relating to the agreement would be settled by arbitration. And a third provided that the contract would not be binding unless it were signed by all parties.

The concert promoter appears to have signed the contract form, but Pebbles did not. She did however show up for the concert, as promised. The promoter tendered the balance of the guarantee then due her, but not all of it was by certified check, money order, bank draft or cash, as the contract required. As a result, Pebbles did not perform, just as the contract indicated. The concert was canceled and the promoter sued.

Pebbles and ICM sought to compel arbitration of the dispute, but the trial court denied their motions on the grounds that they had not signed the contract form containing the arbitration clause. The promoter's lawsuit was based on an oral agreement that allegedly preceded the preparation of the written contract form.

The Indiana Court of Appeals has reversed, however. Its review of the evidence convinced it that no oral agreement ever existed, and that everyone was acting pursuant to the written contract form. It found that although Pebbles had not signed the contract, her actions showed that she had accepted its terms. And the promoter's actions showed that it had accepted the terms of the contract even though Pebbles had not signed it.

The appellate court explained that "Because time is often scarce and artists in the music industry are often on tour during contract negotiations between their agent and the promoters, the absence of an executed written

agreement does not always mean that there is no legally binding agreement." In this case there was testimony "that it is a standard occurrence that artists on tour do not have the opportunity to sign contracts; however all parties act as if they are bound to the terms of the contract."

For this reason, the Court of Appeals ordered the trial court to direct the parties to arbitrate their dispute.

International Creative Management, Inc. v. D & R Entertainment Co., Inc., 670 N.E.2d 1305, 1996 Ind.App. LEXIS 1103 (Ind.App. 1996) [ELR 18:12:14]

Discrimination dispute between television station and producer is ordered to arbitration pursuant to arbitration clause in producer s employment

contract, but court suggests that contractual time limits and limitations on remedies may be unenforceable

A race discrimination claim made by a producer at television station KSTP against the station's owner has been ordered to arbitration by the federal District Court in which the producer initially filed her Title VII case.

The producer's employment agreement contained a clause requiring arbitration of disputes, including those arising under federal anti-discrimination statutes; and the court held that this clause is enforceable. The producer and the EEOC had argued that the arbitration clause was unenforceable for three reasons: because it imposed a time limit for making claims that was shorter than Title VII's statutory time limit; because it barred the recovery of some damages permitted by Title VII; and because it

required the producer to pay her own attorneys fees even if she won though Title VII would permit her to recover her fees from the station if she won.

The court ruled that these provisions did not invalidate the contract's choice of arbitration as the forum for resolving the dispute. The court noted that the applicability of these other provisions would have to be decided first by the arbitrator. However, the court said that if the arbitrator found them to be applicable, the contract might be unenforceable, but judicial consideration of whether the contract was unenforceable on this ground would have to wait until the arbitrator had made a decision.

Johnson v. Hubbard Broadcasting, Inc., 940 F.Supp. 1447, 1996 U.S.Dist.LEXIS 18910 (D.Minn. 1996) [ELR 18:12:15]

Miami Sports and Exhibition Authority is enjoined from preventing the Florida Panthers from using the Miami Arena because the Authority unreasonably withheld consent to amendment of Panther s lease negotiated by company hired to manage the Arena

Wayne Huizenga owns all or part of the NHL's Florida Panthers and Leisure Management International, the company that manages the Miami Arena where the Panthers play their home games. Huizenga does not own the Arena itself, however; the Arena is owned by the Miami Sports and Exhibition Authority. Since the Authority knew that the company it had hired to manage the Arena was owned by the same fellow who owned one of the Arena's major tenants, the Authority reserved the right to approve any leases negotiated by the management company with its "affiliates."

The Panthers' first lease of the Arena was a good deal for the Authority and not a very good deal for the team — not as good a deal, for example, as the lease enjoyed by the NBA's Miami Heat. So when the Panthers' first lease expired, the team did not exercise an option to extend it. Instead, the Panthers negotiated an "amendment."

From the Authority's point of view, it looked as though Huizenga had negotiated the amendment with himself; and the Authority didn't like — and didn't approve — its terms. This would have left the Panthers without a home arena, so they sued, seeking a declaration that the amendment is binding on the Authority and an injunction barring the Authority from preventing the Panthers from using the Arena.

Federal District Judge Michael Moore has granted the Panthers a preliminary injunction. The judge noted that while the Authority had the right to approve

leases entered into by Leisure Management International with its affiliates, the agreement between the Authority and the management company provides that the Authority's approval could "not be unreasonably withheld." Moreover, the agreement contains specific standards for the Authority's review and approval; and under those standards, approval could be withheld only if a lease contained provisions that were less favorable than those previously approved.

While it seems that the lease amendment must have benefited the Panthers in some way, Judge Moore's decision does not describe any changes the amendment may have made to the terms of the Panthers' first lease. Instead, the judge stated that the Authority was "unable to identify any term or condition which is materially different or adverse" to it. And for this reason, Judge Moore concluded that the Authority had unreasonably withheld approval of the amendment.

Florida Panthers Hockey Club, Ltd. v. Miami Sports and Exhibition Authority, 939 F.Supp. 855, 1996 U.S.Dist.LEXIS 14233 (S.D.Fla. 1996) [ELR 18:12:15]

Dismissal of Eddie Palmieri s copyright infringement suit against Gloria Estefan and others is affirmed; appellate court refuses to consider merits of Palmieri s claim that trial court improperly excluded evidence of access

Back in 1991, Grammy-award winning salsa artist Eddie Palmieri filed a copyright infringement suit against Gloria Estefan and others, alleging that Estefan's song "Oye Mi Canto" infringed the copyright to his own "Paginas De Mujer." The defendants included Sony Music and 33 of its foreign affiliates; and early in the

case, Palmieri won an important procedural victory: the District Court ruled that it had personal jurisdiction over Sony's *foreign* affiliates (as well as the U.S.-based defendants).

Shortly before trial, however, Palmieri suffered a significant setback. The District Court ruled that it would not permit him to introduce certain evidence he had intended to use to prove that Estefan had had access to his song before she composed her own. In an unpublished ruling, Judge Richard Owen held that Palmieri could not use evidence of radio air play of a recording of his song, including public performance royalty statements based on estimated air play, to prove access. Nor could he use evidence that two of Estefan's associates possessed a recording of his song, or testimony by Estefan's brother-in-law that the recording had been played at Estefan family gatherings.

Rather than go to trial with his remaining evidence, Palmieri permitted his case to be dismissed, after it was expressly stated on the record that he was "not waiving" his "appellate rights."

Palmieri had intended to appeal the District Court's evidence rulings. But the appellate court has refused to consider his arguments on that issue. Instead, in an opinion by Judge Wilfred Feinberg, the Court of Appeals has ruled that Palmieri is not entitled to appellate review of the lower court's evidence rulings, either because he dismissed the case voluntarily or because it was dismissed on the grounds he refused to proceed when it was called for trial. In either event, the dismissal was not appealable, Judge Feinberg held; and thus it was affirmed for that reason, without regard to the merits of his argument that the trial court should not have excluded his evidence.

Palmieri v. Defaria, 88 F.3d 136, 1996 U.S.App.LEXIS 16016 (2d Cir. 1996) [ELR 18:12:16]

Federal law enforcement agents entitled to trial on claims that television station and newspaper negligently caused agents injuries during 1993 raid on Branch Davidian compound near Waco, Texas; court denies media s motions for summary judgment based on First Amendment on other defenses

More than four years ago, federal law enforcement agents staged a raid on a Branch Davidian compound near Waco, Texas — a raid that eventually ended in a tragedy that reverberates to this very day. During that raid, four of the agents were killed and several others were wounded. The possibility of injuries had been anticipated; the government had even arranged to have

an ambulance standing by. But when the anticipated actually occurred, the urge to assess blame grabbed hold, and at least one lawsuit followed.

Reporters for *The Waco Tribune-Herald* and television station KWTX had learned in advance of the planned raid, and were outside the Branch Davidian compound the morning it occurred. They and their vehicles created a crowd, unusual in its size for the location in question — a crowd that the Davidians noticed. As a result, the raid was not the surprise it was supposed to be. And this is what caused the agents' deaths and injuries, they have alleged in their lawsuit against the newspaper and TV station.

From the paper and station's point of view, they were simply gathering news in a "routine" fashion. So they filed a motion for summary judgment, seeking dismissal of the case in its entirety. But federal District

Judge Walter Smith has ruled against them, saying there was nothing "routine" about the events of that morning.

Judge Smith rejected the defendants' First Amendment defense on the grounds that they were "no more free to cause harm to others while gathering the news than any other individual."

He also ruled that Texas statutes "create a duty upon all individuals, including the media, not to negligently interfere with the execution of arrest or search warrants." Even in the absence of such statutes, the judge added, Texas common-law "clearly establishes that the media defendants owed a duty to the Plaintiffs not to warn the Davidians, either intentionally or negligently, of the impending raid."

The newspaper and station also argued that the presence of their reporters was not the cause in fact of the agents' deaths and injuries. But Judge Smith ruled that material issues of fact about whether the actions of

the reporters had "alerted the Davidians to the impending raid," and thus he could not rule on that issue on summary judgment.

Finally, the defendants argued that the presence of their reporters was not the proximate cause of the tragedy, because the federal agents knew before the raid that the Davidians had become aware of what was about to happen, but the agents decided to proceed nonetheless. This meant that the agents' own actions constituted an "intervening cause," the newspaper and station argued. But Judge Smith again ruled that a material issue of fact was presented concerning whether the agents' "decision to continue with the raid was an intervening cause of the Plaintiffs' injuries, or merely a contributing factor under comparative negligence."

Risenhoover v. England, 936 F.Supp. 392, 1996 U.S.Dist.LEXIS 10831 (W.D.Tex. 1996) [ELR 18:12:16]

Briefly Noted:

Inmates do not have standing to seek declaratory judgment that rented movie videos may be shown in prison without public performance licenses. Inmates in an Arkansas prison have lost a lawsuit in which they sought a declaratory judgment that rented movie videos could be shown in prison without public performance licenses. Although the Arkansas Department of Corrections rents videos from two companies — Film Inc. and Swank Motion Pictures, Inc. — that also issue public performance licenses for their viewing, these licensed rentals are more expensive than rentals

would be from conventional video stores. Thus, the prisoners argued they would be able to see more movies if the Department of Corrections could simply rent videos from stores. The Department of Corrections refused to take a position in the case, however, and so in response to an earlier appellate court ruling (*ELR* 14:5:15), it was joined as an involuntary plaintiff. Nonetheless, the case was dismissed by the District Court, on the grounds there was no case or controversy. The inmates appealed again, but this time the appellate court affirmed. In an opinion by Judge James Loken, the appellate court noted that the Department of Corrections would have had standing to seek a declaratory judgment that in-prison showings of videos are not public performances, and thus do not have to be licensed. But since prisoners themselves cannot rent videos, they cannot engage in any potentially infringing activity; and thus they do not have standing. *Diagnostic Unit Inmate Council v. Films*

Inc., 88 F.3d 651, 1996 U.S.App.LEXIS 16099 (8th Cir. 1996) [ELR 18:12:17]

Comedy club that performed music without ASCAP license is entitled to jury trial on issue of statutory damages, Eighth Circuit Court of Appeals holds. There wasn't much money at stake, but apparently the legal issue in dispute was considered a matter of "principle." When two music publishing companies — Cass County Music and Red Cloud Music — proved that Stanford's Comedy Club (in Little Rock, Arkansas) had publicly performed their songs without an ASCAP license, a federal District Court granted them summary judgment and awarded them $4,000 in statutory damages plus costs and attorneys fees. (*ELR* 17:11:10) The comedy club had asked for a jury trial, but since the publishers had sought only statutory damages — and not

their actual damages or the club's profits — the District Court denied the club's request, ruling that statutory damages are for a judge to assess rather than a jury. There is in fact a split of authority on this issue among the circuits. So despite the exceedingly modest amount of damages actually assessed by the judge — only $1,000 for each of four songs, rather than the $5,000 per song the publishers had requested — the club appealed. In a decision by Judge Pasco Bowman, the Eighth Circuit has ruled in favor of the club, holding that either party is entitled to a jury trial when statutory damages are requested, just as they would be if actual damages and profits had been requested. For this reason, the appellate court reversed the judgment and remanded the case to the District Court for such a trial. *Cass County Music Co. v. C.H.L.R., Inc.*, 88 F.3d 635, 1996 U.S.App.LEXIS 16102 (8th Cir. 1966) [ELR 18:12:17]

FCC may regulate rates charged by cable systems for premium programming packages. The Federal Communications Commission has statutory authority to regulate the rates charged by cable-TV systems for premium programming packages, a federal Court of Appeals has held. This authority comes from the Cable Television Consumer Protection and Competition Act of 1992 — the federal statute by which Congress reimposed federal regulation of cable-TV rates, eight years after Congress had deregulated those rates in 1984. Thus, in a decision by Judge Douglas Ginsburg, the appellate court rejected a petition filed by a cable system operator contending that the FCC could not regulate the prices charged for such packages if each channel or program in the package is also offered "a la carte." *Adelphia Communications Corp. v. Federal Communications Commission*, 88 F.3d 1250, 1996 U.S.App.LEXIS 18152 (D.D.C. 1996) [ELR 18:12:17]

Sponsor of academic games tournament did not infringe games copyrights. The Academic Games League of America did not infringe the copyrights to several games played in the League's tournaments, a federal Court of Appeals has held, because playing games does not constitute their "performance." If game playing were the "performance" of a game, Judge Eugene Wright explained, "that would allow the owner of a copyright in a game to control when and where purchasers of games may play the games and this court will not place such an undue restraint on consumers." The court also said that if playing games did amount to their "performance," the non-profit sponsorship of academic game tournaments would be a fair use. Finally, the tournament's rule book did not infringe the copyright to the games' manuals, because it hadn't been shown that the

games' rules could be expressed in other ways, and thus under the "merger doctrine" the rules were not entitled to copyright protection. *Allen v. Academic Games League of America, Inc.*, 89 F.3d 614, 1996 U.S.App.LEXIS 17081 (9th Cir. 1996) [ELR 18:12:18]

United Press International not liable for re-publication of allegedly defamatory article about beauty pageant producer. A defamation, fraud and in-terference with contract lawsuit filed by the president of the Miss Black Virginia Pageant against United Press International has been dismissed in response to UPI's motion for summary judgment. The lawsuit arose out of UPI's republication of an allegedly defamatory article that was reported and originally published by the *Virginia-Pilot*. Federal District Court Judge Paul Fried-man ruled that UPI was not negligent as a matter of law

for republishing on its wire an article from a reliable newspaper that did not suggest a factual error or the need for further investigation. In so ruling, the judge relied on the "wire service defense," a legal doctrine that had been applied in another lawsuit filed by the same plaintiff against Associated Press on account of the republication by that wire service of the same *Virginia-Pilot* article (*ELR* 18:3:12). Judge Friedman also dismissed the plaintiff's fraud and interference with contract claims, because she did not have standing to assert UPI's alleged fraud on the public, and because there was no evidence that UPI had interfered with any contractual relationships. *Winn v. United Press International*, 938 F.Supp. 39, 1996 U.S.Dist. LEXIS 13144 (D.D.C. 1996) [ELR 18:12:18]

Court refuses to enjoin enforcement of high school athletic association eight semester rule, despite claim by learning disabled football player that rule violates his rights under Rehabilitation Act and Americans with Disabilities Act. A federal District Court has denied a motion for a preliminary injunction sought by a learning disabled high school football player who contends that the Ohio High School Athletic Association "eight consecutive semester" rule violates his rights under the Rehabilitation Act and Americans with Disabilities Act. The student had received failing grades as a high school freshman and thus had completed eight semesters by the time he began his senior year. Under the "eight semester" rule, he was ineligible to play football as a senior; and that is what prompted his lawsuit. Judge Sam Bell denied the student's motion for a preliminary injunction, on the grounds that his ineligibility for football was not "solely" the result of this learning

disability. Rather, citing an appellate court ruling in a similar case involving a "19-year-old" eligibility rule (*ELR* 17:11:11), Judge Bell ruled that it was the passage of time measured in semesters that made the student ineligible for further football play, rather than his learning disability. Thus, since the student's ineligibility was not solely based on his disability, the rule did not violate the Rehabilitation Act or the American with Disabilities Act, because both Acts require proof that the offending rule discriminates against the complaining individual "solely" by reason of his or her disability. *Rhodes v. Ohio High School Athletic Association*, 939 F.Supp. 584, 1996 U.S.Dist.LEXIS 12998 (N.D.Ohio 1996) [ELR 18:12:18]

Law enforcement officials entitled to show that seizure of videotape from TV newsroom was

permitted under exception to Privacy Protection Act s usual requirement that subpoenas be used instead of search warrants. A videotape of a murder being committed in Kansas City was seized by law enforcement officials during a search of the newsroom of television station WDAF-TV which had purchased the tape from the tourist who made it. The search was done pursuant to a search warrant, after the station had told police they could have a copy if they got a "court order." Under the Privacy Protection Act of 1980, law enforcement agencies are supposed to get materials from news organizations by using subpoenas, not by conducting searches, except in certain specifically described circumstances. In this case, the application for the search warrant made no mention of any of the exceptional circumstances. So when the WDAF sued those who had conducted the search for violating the Privacy Protection Act, the judge refused to allow them to assert that their

search was permitted because exceptional circumstances existed. Instead, the court awarded the station $1,000 in damages (*ELR* 17:6:26). A majority of a federal Court of Appeals has reversed, however. In a decision by Judge Frank Magill, the appellate court has ruled that the Act does not require law enforcement officials to describe exceptional circumstances in their application for a search warrant. As a result, the appellate court reversed and remanded the case to the lower court, where law enforcement officials will be given the chance to prove that circumstances made a search warrant proper under the Act's exceptions. Appellate Judge Myron Bright dissented. *Citicasters v. McCaskill*, 89 F.3d 1350, 1996 U.S.App.LEXIS 17823 (8th Cir. 1996) [ELR 18:12:18]

Previously Reported:

Supreme Court refuses to hear Hooked on Phonics copyright co-ownership case. The United States Supreme Court has denied a petition for certiorari in a case which held that the Copyright Act's three-year statute of limitations applies to claims of co-ownership, and that the three-year period begins when the co-ownership is first denied and does not begin anew each time the work in question is republished. (*ELR* 18:7:24) By denying their petition, the Supreme Court brought to an end a case filed by two musicians who say they co-authored "Hooked on Phonics," a now popular audio-tape program that helps children learn to read. The Supreme Court's refusal to hear the case also leaves a split among the circuits on the issue of which law supplies the period of limitations for co-ownership claims. The "Hooked on Phonics" case, holding that the Copyright

Act applies, was decided by the Ninth Circuit. But the Second Circuit and the Fifth Circuit have held that state law, not the Copyright Act, determines the period of limitations in cases involving claims of copyright co-ownership. (*ELR* 14:6:8, 18:6:8). *Zuill v. Shanahan*, 117 S.Ct. 763, 1997 U.S.LEXIS 519 (1997). [ELR 18:12:19]

Court of Appeals affirms dismissal of *Terminator 2* plagiarism case. The Ninth Circuit Court of Appeals has affirmed a summary judgment dismissing an implied contract and breach of confidence action alleging that the Arnold Schwarzenegger movie "Terminator 2" was based on a screenplay entitled "The Minotaur" written by plaintiff William B. Green. (*ELR* 17:10:5) The appellate court did not write an opinion explaining its decision. Its order merely says, "For the

reasons given by the district court in its Order Granting Defendants' Motion for Summary Judgment, entered on July 12, 1995, and its Order re Defendants' Motion for Attorney Fees and Costs, entered on May 7, 1996, both orders are affirmed in all respects." *Green v. Schwarzenegger*, 1997 U.S.App.LEXIS 3921, 1997 WL 90379 (9th Cir. 1997) [ELR 18:12:19]

INTERNATIONAL CASES

British Court of Appeal affirms ruling that KWS recording of Please Don t Go infringed copyright to disco arrangement composed by Roberto Zanetti, and that Pinnacle Records distributed records in U.K. with knowledge they infringed so that additional damages are justified

Pinnacle Records is the largest independent record distributor in the United Kingdom. Its directors — Steven Mason and Sean Sullivan — are both experienced record industry executives; Mason is even a member of the Committee of the British Phonographic Industry. As a result, it might be thought that Pinnacle would know the difference between a "cover" recording and a recording of an "arrangement."

That at least is what a British trial court judge thought, in a case in which Pinnacle was sued for distributing an infringing recording of a copyright protected arrangement of the song "Please Don't Go." As a result, the trial court held that the owner of the arrangement's copyright was entitled to the usual remedies for copyright infringement, and "additional damages" as well, due to the "flagrancy" of Pinnacle's infringement. Moreover, in the course of rendering his judgment, the trial judge was so critical of the testimony given by

Mason and Sullivan that they felt the judgment injured their reputations. (*ELR* 17:5:19)

For both of these reasons, Pinnacle appealed, but without success. The Court of Appeal has affirmed the trial court's judgment, even to the point of saying that the trial judge "was fully entitled to reject their [Mason's and Sullivan's] testimony when it conflicted with other evidence, and to disbelieve the explanations and excuses which they put forward to justify their conduct."

At issue in the case was a disco arrangement of "Please Don't Go," a dreamy ballad written by Wayne Casey and Richard Finch and first recorded in 1979 by KC and the Sunshine Band. The disco arrangement was written by Italian record producer and keyboard player Roberto Zanetti and was recorded by his band Double You early in 1992. Shortly after the Double You recording was released, another band — KWS — recorded Zanetti's disco version, without a license. Zanetti's

publisher sued KWS, its record company, and the record's distributors in Germany and in Britain.

Zanetti's publisher quickly got an injunction against them in Germany. The dispute was newsworthy even in Britain, and the German distributor was a Pinnacle subsidiary. Nevertheless, Pinnacle proceeded to release the KWS recording in the U.K.

In its defense, Pinnacle claimed that it thought that the Double You version of "Please Don't Go" was simply a "cover" version of the original song, and as such would not be entitled to a copyright of its own because it was not sufficiently original. Actually, Zanetti's version of the song was quite different from the original — so different that the trial court judge and the judges of the Court of Appeal were able to hear significant differences between them without difficulty. Thus the Zanetti version was an "arrangement" and sufficiently original to be entitled to a copyright of its own.

The primary issue on appeal was whether Pinnacle "actually knew" or "had reason to believe" that the Zanetti arrangement was protected by its own copyright, at the time Pinnacle began distributing the KWS recording in Britain. The answer to this question depended largely on the evidence; and the Court of Appeal reviewed and evaluated the evidence in detail.

On the basis of its review, the appellate court concluded that the trial judge had been "right to conclude that Mr. Mason and Mr. Sullivan had actual knowledge at the release date that the two new versions were arrangements and not covers of the original song." If they did not have actual knowledge, the appellate court said, "the only viable alternative conclusion would be that they turned a blind eye to the question" by failing to compare the new versions with the "easily available original."

Moreover, the appellate court held that the trial judge had correctly decided that a "reasonable" record distributor, knowing what Pinnacle knew, would necessarily believe there might be an infringement once it read about the dispute in the British press and certainly once the injunction was issued in Germany.

ZYX Music GmbH v. King, [1997] 2 All ER 129 (Ct.App.Civ.Div. 1997) (available in LEXIS Intlaw Library, Engcas File) [ELR 18:12:20]

WASHINGTON MONITOR

U.S. Trade Representative announces results of 1996-97 review of world-wide protection of rights of U.S. intellectual property owners; treatment of

American entertainment industry in other countries is detailed

United States Trade Representative Charlene Barshefsky has announced the results of her office's 1996-97 Special 301 annual review. As a result of this review of the "adequacy and effectiveness" of intellectual property protection in over 70 countries, the United States will initiate WTO dispute settlement actions against four countries and may bring actions against two more if they do not meet their TRIPS obligations in the coming months. In addition, Barshefsky announced that ten more countries have been placed on the "priority watch list" and another 36 have been placed on the "watch list."

The Trade Representative's annual review covers all types of intellectual property protection, including patent and other specialized types of protection that do

not directly affect the entertainment industry. However, American entertainment companies depend on copyright, trademark and related types protection, so much of the Trade Representative's review was devoted to matters of significant importance to those in the entertainment industry.

WTO Dispute Settlement Actions

All four of the countries against which dispute settlement actions will be initiated before the WTO have failed to provide adequate protection to the entertainment industry.

Denmark has not implemented the TRIPS obligation to provide provisional relief in civil enforcement proceedings. The United States wants Danish courts to be granted the ability to order unannounced raids to determine whether infringement is taking place, and to

either seize allegedly infringing products as evidence or to order that allegedly infringing activities be stopped pending the outcome of a civil infringement case.

Sweden also does not provide provisional relief in civil proceedings, although Sweden may amend its law to do so. If it does, Barshefsky has said that the United States will terminate dispute settlement proceedings against it.

Ireland has not yet amended its copyright law to comply with TRIPS obligations. For example, Irish copyright law does not yet prohibit the unauthorized rental of sound recordings, does not yet contain an "anti-bootlegging" provision, and contains only minimal criminal penalties which fail to deter piracy.

Ecuador has failed to upgrade its laws as required by TRIPS in several ways. Its copyright law does not treat computer programs as literary works, and its

trademark law does not give foreign trademarks national treatment.

According to Barshefsky, the United States has "serious concerns" about compliance with WTO obligations in two other countries — Greece and Luxembourg — but WTO dispute settlement cases will not be initiated at this time in the hope that these countries will take the steps necessary to bring them into compliance voluntarily.

In **Greece**, many TV stations broadcast U.S.-owned movies without being licensed to do so, and without paying fees. Enforcement efforts by U.S. copyright owners against these unauthorized TV broadcasts have been "thwarted in a manner inconsistent with TRIPS enforcement provisions," Barshefsky has said. But the government of Greece has begun taking steps which may correct this problem, so the United States plans to wait until July 1997 to see whether TV piracy is

reduced by then. If it is not, the U.S. will request WTO dispute settlement consultations at that time.

Luxembourg has not amended its copyright law to comply with TRIPS obligations. For example, that country's copyright law does not contain an anti-bootlegging provision, does not protect sound recordings as long as it should, does not provide retroactive protection for sound recordings as it should, and does not prevent the unauthorized rental of sound recordings. Barshefsky has announced that the U.S. will initiate WTO dispute settlement procedures if Luxembourg has not complied with its TRIPS obligations by September 1997.

Special 301 Decisions

China was made a "priority foreign country" in 1995 as a result of a "Special 301" proceeding (*ELR*

17:12:17), and the United States threatened to impose punitive tariffs on goods imported from that country. China responded with tariffs threats of its own, and a trade war between the two countries seemed a real possibility. However, just before the designated deadline, the United States and China reached an "enforcement accord" which permitted Barshefsky to announce that punitive tariffs would not be imposed (*ELR* 18:1:18). According to the Trade Representative's most recent review, China has shut down 39 factories that had been making pirated CD's, CD-ROMs and VCDs, and rewards are now being offered of up to $75,000 for information leading to the closure of illegal production facilities. More than 250 people have been arrested, and some of them have been sentenced to prison for as much as 15 years. Chinese customs officials have stepped up raids at the border and have seized smuggled CD production equipment. Nonetheless, Barshefsky has

announced, the production of pirated CDs, CD-ROMs, and VCDs continues to be a serious problem, and domestic end-user piracy rates remain high. As a result, the Trade Representative has designated China for special "Section 306" status in order to "ensure that enhanced enforcement measures are put in place."

Priority Watch List

This year, the Administration has decided to place ten countries on the priority watch list, "because of the lack of adequate and effective intellectual property protection or market access in these countries is particularly troublesome to U.S. interests." Seven of these countries are of special concern to the entertainment industry.

Egypt has improved its protection of copyrighted works. But because of the lack of sufficient enforcement and the failure to impose deterrent penalties, there has

not been a significant reduction in piracy of videos, books, and software.

The **European Union** continues to deny national treatment to U.S. intellectual property owners with respect to the distribution of revenues collected in association with blank tape levies and public performances. And domestic content restrictions in certain member states deny market access opportunities for U.S. companies.

Greece has not yet acted to stop extensive copyright piracy, particularly the widespread unauthorized television broadcasts of American motion pictures and other programming.

Indonesia presents serious problems in connection with the protection of well-known trademarks and market access. Although the Indonesian parliament has passed revised copyright and trademark laws in order to bring it into closer compliance with its TRIPS

obligations, U.S. firms continue to face inadequate enforcement against retail and end-user software piracy and video compact disk piracy at the retail level. Indonesian enforcement efforts have not yet been regular, aggressive or comprehensive enough to prevent software and VCD piracy. Also, U.S. companies experience serious problems in Indonesia from counterfeiting and the appropriation of their trademarks by local registrants and have problems with the protection of well-known trademarks. Pervasive market access barriers impede the full entry of all copyright-based industries into the Indonesian market.

Last October, Barshefsky said that **Paraguay** needed to make "significant, meaningful progress in combating piracy and counterfeiting" by the April 1997 review. Since then, the Paraguayan Government has taken important initial steps, including the introduction of new intellectual property legislation and the creation

of a National Intellectual Property Council. However, piracy and counterfeiting in Paraguay have reached alarming levels and much more needs to be done. As a result, Paraguay has been placed on the priority watch list. An out-of-cycle review will be conducted before next April to monitor the efforts of the Government of Paraguay in cracking down against piracy and counterfeiting internally and especially at the border and enacting modern intellectual property legislation.

Russia continues to take steps to address U.S. intellectual property concerns, but a number of serious problems remain including insufficient progress in improving copyright protection and enforcement. Russia is being elevated to the priority watch list in large part because it fails to provide protection, as required by international agreements, for pre-existing U.S. copyrighted works and sound recordings. Extensive piracy of American videos, films, music, books and software remains a

serious problem. In addition, Russia maintains a discriminatory registration fee for foreign motion pictures which discourages the development of a market for legitimate products and increases the market for pirated versions.

Turkey remains on the priority watch list because it continues to have inadequate intellectual property laws and its enforcement efforts have been ineffective. As part of Turkey's entry into a customs union with the European Union, Turkey has agreed to continue to improve its intellectual property protection. Nevertheless, Turkey's copyright law remains deficient and is TRIPS inconsistent in a number of respects. Moreover, enforcement efforts remain lax and, as a result, copyright piracy is widespread. Turkey also maintains a discriminatory 25 percent municipality tax on receipts from foreign films which is inconsistent with Turkey's national treatment obligations under GATT. The United States is

pursuing this matter under WTO's dispute settlement procedures and will review Turkey's progress toward resolving these issues in an out-of-cycle review in December 1997.

Watch List

The Trade Representative has decided that 36 countries should be placed on the "'watch list." (The "watch list" is used to monitor progress in implementing commitments with regard to the protection of intellectual property rights and for providing comparable market access for U.S. intellectual property products.) Twenty-one of these countries are of concern to the entertainment industry.

Australia now permits the parallel importation of books under certain circumstances, and the United States is concerned that it may broaden the

circumstances under which books may be imported and may even permit parallel importation of sound recordings and software.

Bahrain has taken important steps to combat video piracy, but the United States has urged it to bring its copyright regime into line with its obligations under the Berne Convention and the WTO and to increase enforcement actions against the piracy of copyrighted works of all types.

Bolivia has been kept on the watch list because it has not yet taken adequate steps to combat copyright piracy and to revise its national copyright law to conform with international standards. The national treatment obligations of TRIPS require Bolivia to provide full copyright protection for foreign sound recordings which it currently does not.

Bulgaria has adhered to the Geneva Phonograms Convention and has published a statement in its official

gazette confirming copyright protection for U.S. and other foreign sound recordings. It also established a title verification system aimed at preventing and detecting unlicensed production of CDs and CD-ROMs. Despite these developments, production and export of pirated product — particularly CDs and CD-ROMs — continues to be a serious problem. An "out-of-cycle" review will be conducted in December 1997 to ensure that enforcement efforts are improved. Special attention will be paid to the level of production of pirated CDs and CD-ROMs as well as the export of those products to other markets.

Canada is a concern because in April 1997, the Canadian Parliament passed copyright legislation that discriminates against the interests of some U.S. copyright holders. This legislation establishes a public performance right for record producers and performers, and it imposes a levy on blank audio recording media, the

revenues from which are intended to compensate performers and producers for the performance and unauthorized home-taping of their works in Canada. The United States is extremely concerned that U.S. performers and producers are denied national treatment under the legislation. In response to this recent development, the Trade Representative immediately began an out-of-cycle review to examine the legislation in detail and consult with U.S. industry members on appropriate next steps.

In **Columbia**, piracy and border enforcement continue to be significant problems; and that country's TV broadcast law continues to discriminate against foreign content.

Denmark has not implemented the TRIPS obligation to provide provisional remedies, including ex parte actions in civil enforcement proceedings.

The **Dominican Republic** has not made sufficient progress to address the lack of adequate and effective intellectual property protection since last year's review and is therefore being included on the watch list. Dominican copyright law does not provide protection consistent with TRIPS. The United States is especially concerned that TV piracy and piracy of computer software, video, and CDs continues with little enforcement action by the Dominican Government. Trademark enforcement is also inadequate, particularly regarding well-known trademarks.

Guatemala s copyright law is deficient, and the United States remains concerned about the interception and unauthorized retransmission of U.S. satellite-carried programming by cable and multichannel microwave distribution systems.

Copyright piracy has worsened in **Hong Kong** over the past year. As a result, Hong Kong is being

placed on the watch list. Enactment of a new copyright law is expected in the near future which should significantly strengthen Hong Kong's ability to make major inroads in the battle against copyright piracy. An out-of-cycle review will be conducted in the fall to review the results of these efforts.

Ireland has not yet amended its copyright law to comply with its TRIPS obligations.

Israel has an inadequate copyright law which, combined with poor enforcement, has led to widespread cable and software piracy. There is also evidence of growing audio CD piracy for export. The United States is increasingly concerned by this situation and has asked Israel to revise its copyright law, to improve enforcement, and to pass a law governing licensing of satellite signals by cable operators.

Extensive copyright piracy and trademark counterfeiting exist in **Italy**. The Italian Government

stepped-up enforcement efforts over the past year, including several large well-publicized raids, particularly against copyright piracy. Nevertheless, losses due to piracy remain high. A major impediment to reducing video piracy has been the inadequacy of existing criminal penalties.An out-of-cycle review will be conducted in the fall to assess the results of Italy's continued efforts against piracy and counterfeiting.

Jordan s 1992 copyright law is cumbersome and falls far short of international standards in most respects. Any protection offered by the law is undermined by a lack of effective enforcement mechanisms and, as a result, piracy is rampant. Jordan intends to revise its copyright law as part of its economic liberalization program and accession to the WTO but insufficient progress has been made. Trademark protection is unavailable absent extreme vigilance by U.S. rights holders and revisions in

the law are necessary to expand the definition of "trade-mark" to include services and goods.

Korea has taken a number of steps to enhance the protection and enforcement of intellectual property rights and to reduce piracy. These include implementation of various parts of the TRIPS agreement, accession to the Berne Convention, the reduction of end-user software piracy, and increased budget allocations for enforcement. Korea also will gradually ease foreign content restrictions applicable to cable programming and may improve market access for intellectual property-content goods, including TV programs. The United States has applauded these steps and is ready to address more complex issues, including full retroactive protection for copyright works and enhanced protection of well-known trademarks.

Luxembourg has not amended its copyright law to comply with TRIPS obligations, which have been in effect since January 1996.

Poland enacted a copyright law in 1994, and the United States continues to monitor implementation and enforcement of rights provided under that law. While enforcement has steadily improved for most intellectual property, piracy remains a problem and enforcement efforts must be sustained. Furthermore, Poland's copyright law provides protection to sound recordings both Polish and foreign back only to 1974; the international standard provided for in TRIPS is 50 years of protection for pre-existing works. TRIPS obligates Poland to provide full protection for sound recordings on a national treatment basis, and the United States will monitor that country carefully to ensure that such protection is provided.

San Marino has become an important center for the manufacture and distribution of bootleg sound

recordings. The United States expects that country to strengthen its domestic legislation and to take strong enforcement actions against those engaging in these illicit practices.

Saudi Arabia has made progress in improving its enforcement activities against copyright piracy, particularly for motion pictures and sound recordings. However, serious copyright problems remain, because its copyright law contains deficiencies making it incompatible with international standards, including an inadequate term of protection. At the conclusion of an out-of-cycle review in December 1996, Saudi Arabia was maintained on the watch list because more enforcement actions were needed against pirated products.

Although **Singapore** has a good record of protecting intellectual property, its copyright law is not TRIPS consistent. Outstanding issues include lack of rental rights for sound recordings and software,

inadequate protection against making bootleg copies of musical performances, the scope of copyright protection for cinematographic works, and overly broad exceptions from copyright protection.

Sweden has not implemented the TRIPS obligation to provide provisional relief in civil enforcement proceedings.

Other Observations

The Trade Representative also noted developments in five other countries.

Austria amended its copyright law in 1996. One of these amendments created a compulsory license for the public performance of films in hotels. This compulsory license may violate both the Berne Convention and TRIPS. The United States will continue to consult with Austria about this matter and expects that Austria will

amend its copyright law to remove the compulsory license provision.

While **Germany** has made notable progress in enforcement since last year's review and is credited by the entertainment industry with doing an effective job in combating video and audio piracy, concerns are increasing regarding the role of German firms in manufacturing and exporting Europe pirated "smart cards" and other descrambling devices used to steal encrypted satellite, cable and broadcast transmissions, particularly of American motion pictures.

Television piracy remains a serious problem in **Lebanon**. The most urgent needs in that country include: judicial reform of administrative processes; full implementation of licensing under the 1996 Broadcast Law; and the completion of the copyright law reform process. Although Lebanon has a copyright law that adheres to the 1928 text of the Berne Convention and to

the Universal Copyright Convention, this legislation must be amended to meet TRIPS standards, and penalties for copyright infringement should be increased.

Nicaragua's current copyright law, which dates from 1904, does not explicitly protect computer software, which contributes to endemic piracy. Piracy of video recordings, unauthorized video and sound recordings, and piracy of U.S. satellite signals is also widespread.

Romania passed a new copyright law in 1996 which appears to meet international standards. Regrettably it appears that after Romania undertook an initial anti-piracy campaign following implementation of the law, it relaxed its efforts and piracy has returned to that market. The United States is concerned that little progress was made over the past year to ensure that the new law is effectively implemented and enforced in order to end the piracy of American motion pictures by

TV stations in Romania, the production of pirated audio cassettes, and the piracy of American books.
[ELR 18:14:21]

DEPARTMENTS

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[ELR 18:12:25]