

LEGAL AFFAIRS

Pursuing the Home Court Advantage In International Trademark Litigation

by Lionel S. Sobel

It's a small world, though more so for some things than others.

Take for example "Les Ballets Trockadero de Monte Carlo" and "Les Ballets Torokka de Russia." Despite their names, "Les Ballets Trockadero de Monte Carlo" is not based in the European principality of Monaco. It's based in the American city of New York. And it earns 80% of its annual revenues from performances given in Japan. Likewise, "Les Ballets Torokka de Russia" is not based in Russia. It too is a New York

company. And it too expected to earn much if not most of its income from performances in Japan.

Both companies are all male satirical ballet troupes. The most important words in their names are similar, and their nicknames - including "Trockadero" and "Torokkadero" - are even more so. Les Ballets Trockadero de Monte Carlo is the senior of the two troupes, by more than twenty years, and it has registered its name and nicknames as trademarks in the United States Trademark Office. So when Les Ballets Torokka de Russia was created, with its remarkably similar names, Les Ballets Trockadero was upset.

The senior troupe's upset was compounded by several additional facts. The president and sole shareholder of the corporation that organized Les Ballets Torokka - a man named Kyoichi Miyazaki - is the same man who owns the Japanese company that had promoted Les Ballets Trockadero in Japan for years,

pursuant to a contract that gave him the exclusive right to do so. Moreover, Les Ballets Torokka's artistic director, Victor Trevino, is a former Trockadero ballet dancer. And during the summer of 1996, flyers were inserted in programs for the Trockadero's performances in Japan promoting the Torokka troupe as the "Trockadero's Winter Company" and its upcoming tour as the "Trockadero Winter Version."

The upshot of all this was that Les Ballets Trockadero de Monte Carlo filed a trademark infringement lawsuit against Les Ballets Torokka de Russia. The suit was filed in federal District Court in New York City, and Les Ballets Trockadero immediately sought a preliminary injunction that would prohibit the upstart troupe from using the "Trockadero" or "Torokka" names or nicknames - in Japan as well as the United States. Not surprisingly, Les Ballets Torokka responded by arguing that the suit "should be dismissed because the

proceeding should take place in Japan under Japanese law."

This is not what happened however. Instead, Judge John Koeltl found that under the circumstances of this case, the Lanham Act does have extraterritorial application, and therefore did reach Les Ballets Torokka's activities in Japan. And the judge issued the requested preliminary injunction. *Les Ballets Trockadero de Monte Carlo, Inc. v. Trevino*, 945 F.Supp. 563 (S.D.N.Y. 1996) (For a report on the substantive issues in the case, see page 20 of this issue. ELR 19:3:20)

The Trockadero decision is the latest in a growing body of cases involving trademark disputes that have an international dimension. The exact nature of the international dimension varies from case to case. In some, the plaintiff and defendant are from different countries. In others, like Trockadero, the parties are located in one country but the alleged infringement took place in

another. In still others, both parties are located in the same country where the infringement took place, but an important transaction took place in another country.

Regardless of the circumstances that gives these cases their international dimension, all of the cases have one thing in common. Since there are no international tribunals for the resolution of international trademark disputes, an infringement action must be filed in the court of one country or the other. In all of these cases, the plaintiff has chosen the one that will give it the home court advantage. The advantage sought by plaintiffs has four related parts: convenience, minimization of the plaintiff's expense, maximization of the defendant's expense, and the ability to use local counsel. While these advantages do not relate to the actual merits of the dispute, they usually are sufficient to justify a good deal of legal skirmishing in the early phases of an international

case, because when it comes to litigation, the world is not so small after all.

International litigation raises a host of common issues, regardless of the substantive nature of the claims asserted. Among these are: service of process abroad; venue; discovery abroad; sovereign immunity; the Act of State doctrine; and recognition and enforcement of judgments. These issues have been addressed in at least three books: *Litigation of International Disputes in U.S. Courts* by Ved P. Nanda and David K. Pansius (a treatise published by Clark Boardman Callaghan in 1986 and updated since); *International Civil Litigation in United States Courts: Commentary and Materials* (2d ed.) by Gary B. Born and David Westin (a combination treatise/casebook published by Kluwer Law and Taxation Publishers in 1992); and *International Litigation and Arbitration: Practice and Planning* by Russell J.

Weintraub (a casebook published by Carolina Academic Press in 1994).

None of these books addresses itself to any particular type of case. Though they do cover the extraterritorial reach of substantive U.S. law, they use as examples the extraterritorial application of U.S. antitrust and federal securities laws. They say nothing about U.S. intellectual property law in general, let alone trademark law in particular. Naturally, the litigation of international trademark law cases in U.S. courts raises all of the issues of general applicability discussed in these books. But international trademark cases also raise additional issues that are unique to trademark law in particular. These issues include: (1) the extraterritorial application of U.S. trademark law; (2) subject matter jurisdiction of U.S. courts; (3) personal jurisdiction over foreign defendants; (4) choice of law; and (5) the geographic scope of

available remedies. This article surveys the case law concerning each of these issues.

Extraterritorial application of U.S. trademark law

As a general rule, intellectual property laws, including trademark law, are territorial - not extraterritorial - in their application. This means that each country's intellectual property laws operate only within their own boundaries, not in other countries. So most of the time, foreign trademark law is not applicable within the United States; and U.S. trademark law is not applicable abroad. There are however exceptions to this general rule (at least as a matter of U.S. law), because there are circumstances under which activity that occurred abroad may be significant in intellectual property litigation in U.S. courts.

Foreign trademark law in U.S.

The general rule that foreign trademark law does not apply in the United States is well illustrated by *Majorica, S.A. v. Majorca Intl.*, 687 F.Supp. 92 (S.D.N.Y. 1988). In that case, a U.S. District Court held that a

tion of Spanish law did not state a cause of action, because ". . . the trademark laws of a foreign country have no extraterritorial effect and cannot be asserted to support federal claims in a United States district court."

U.S. trademark law abroad

Likewise, as a general rule U.S. trademark law does not apply to activity that took place abroad. But there are exceptions to this general rule. (Indeed, U.S. trademark law may be applied extraterritorially - that is,

to activity that takes place outside the U.S. - to a much greater extent than U.S. copyright law. For a discussion of the extraterritorial applicability of U.S. copyright law, see "Pursuing the Home Court Advantage in International Copyright Cases" by Lionel S. Sobel, in September 1995 issue of the Entertainment Law Reporter. (ELR 17:4:3))

Where infringing goods are manufactured abroad and are shipped to and sold in the United States, the Lanham Act is applicable; and in such cases, the application of the Lanham Act is not considered to be extraterritorial at all. This principle is illustrated by *Menendez v. Faber, Coe & Gregg, Inc.*, 345 F.Supp. 527, 557 (S.D.N.Y. 1972). The defendants were Cuban cigar manufacturers, and they contended "that since the cigars to which the trademarks were affixed were manufactured, boxed and labeled in Cuba and were shipped f.o.b. Havana, the Lanham Act has no application to the

infringement claims against them." But the court ruled "There is no merit to this contention. The facts are that the cigars were shipped by the [defendants] to the United States with the full knowledge and intention that they would be sold to consumers in this country. . . . Any confusion or deception arising from the [defendants'] use of the [plaintiffs'] United States marks, was upon persons purchasing the cigars in this country. The infringement and the resulting harm complained of by the [plaintiffs] occurred not in Cuba but here. . . . There is no question of giving extraterritorial effect to the Lanham Act as the [defendants] contend."

Sometimes, however, infringements occur entirely abroad, and plaintiffs will seek to apply U.S. law nonetheless. The leading decision on the extraterritorial potential for the Lanham Act is *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952). In that case, Bulova Watch Co., an American corporation, sued a U.S. citizen and

resident for trademark infringement where the defendant's infringing act - affixing the "Bulova" trademark to the defendant's goods without Bulova's authorization - was committed entirely in Mexico. In deciding whether the Lanham Act reached the defendant's activities in Mexico, the Supreme Court acknowledged that it had ". . . often stated that the legislation of Congress will not extend beyond the boundaries of the United States unless a contrary legislative intent appears." But the Court found such a contrary legislative intent in the Lanham Act, because Congress indicated the Act was intended to prohibit trademark infringements in "all commerce which may lawfully be regulated by Congress." The Court noted that "the United States is not debarred by any rule of international law from governing the conduct of its own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed. With respect to such an

exercise of authority there is no question of international law, but solely of the purport of the municipal law which establishes the duty of the citizen in relation to his own government." Thus, the Court concluded that "In light of the broad jurisdictional grant in the Lanham Act, we deem its scope to encompass petitioner's [defendant's] activities here." In reaching this conclusion, the Court emphasized three facts: (1) the defendant had purchased the parts for his watches in the U.S.; (2) the defendant's "spurious" watches had filtered through the Mexican border into the U.S.; and (3) the defendant's watches could have adversely affected Bulova's reputation in the U.S. as well as abroad.

Though *Steel v. Bulova Watch* stands broadly for the proposition that the Lanham Act may be applied extraterritorially, the specific issue which reached the Supreme Court in that case was whether the District Court had "subject matter jurisdiction." In the years since

Bulova, lower courts have addressed the circumstances under which the Lanham Act is given extraterritorial effect, and they too have done so in the context of deciding whether they have subject matter jurisdiction. (See generally, Robert Alpert, "The Export of Trademarked Goods from the United States: The Extraterritorial Reach of the Lanham Act," 81 Trademark Reporter 125 (1990), and Sarah Thomas-Gonzalez, Note, "Extraterritorial Jurisdiction of the Lanham Act: American Rice, Inc. v. Arkansas Ricegrowers Cooperative Ass'n," 11 Brooklyn J. Int'l L. 411 (1985).)

Jurisdiction

Subject matter jurisdiction

United States District Courts are extremely powerful. But as powerful as they are, they are courts of

limited jurisdiction. This means they have jurisdiction to hear only those types of cases that Congress has authorized them to hear; and they have no power whatsoever in cases Congress has not authorized them to hear. This type of jurisdiction is referred to as "subject matter jurisdiction."

Most of the time, U.S. District Courts have subject matter jurisdiction over trademark cases by virtue of section 1338(a) of Title 28 of the United States Code which gives them jurisdiction to hear actions "arising under any Act of Congress relating to . . . trade-marks. . ." (emphasis added), and by virtue of section 39(a) of the Lanham Act itself (15 U.S.C. sec. 1121(a)) which gives District (and Territorial) courts subject matter jurisdiction over "actions arising under" the Lanham Act. Thus, if a trademark claim does not arise under an "Act of Congress" including the Lanham Act, it is likely that

U.S. District Courts will not have subject matter jurisdiction to hear it.

Cases that have tested the scope of District Courts' subject matter jurisdiction have involved two types of circumstances: those in which there was no activity in the U.S. and foreign activity had no effect on U.S. commerce; and those in which foreign activity did have some effect on U.S. commerce.

No activity in the U.S. or effect on U.S.
commerce

Though Lanham Act has extraterritorial potential, it is not applied to activity that takes place outside the U.S. that has no effect on U.S. commerce. Thus, in *Ale-sayi Beverage Corp. v. Canada Dry Corp.*, 797 F.Supp. 320 (S.D.N.Y. 1992), a federal District Court in New York declined to exercise subject matter jurisdiction

over counterclaims asserted by a U.S. corporation against a Saudi Arabian corporation, where the complained-of trademark infringements took place entirely in Saudi Arabia. The court explained that "To hear such counterclaims, based entirely on conduct abroad without any specific allegation of actual impact on United States commerce, would entail misapplication of the statutes involved [presumably the Lanham Act and 28 U.S.C. sec. 1338(a)]: they were never intended to control trade in other countries absent any definable impact in this country. . . ."

The Lanham Act does, however, reach "foreign trade zones" which are warehouses in U.S. ports of entry in which foreign goods are stored, exhibited, repacked and sold without becoming subject to U.S. customs laws. Thus, although foreign goods stored in "foreign trade zones" are not treated as though they have been imported into the U.S. as a matter of U.S. customs

laws, they are considered to be in the U.S. for the purposes of U.S. trademark law. *Ocean Garden, Inc. v. Marktrade Co.*, 953 F.2d 500 (9th Cir. 1991); *A.T. Cross Co. v. Sunil Trading Corp.*, 467 F.Supp. 47 (S.D.N.Y. 1979).

Activity abroad that has an effect on U.S. commerce

If infringing activity outside the U.S. has an effect on U.S. commerce, U.S. trademark law may reach that activity. Whether it actually will be given such extraterritorial effect depends on several factors. And the multi-factor test used by courts is described or applied differently from Circuit to Circuit.

Test used in 2nd, 5th and 7th
Circuits

In the Second, Fifth and Seventh Circuits, courts consider these three factors: (1) the extent of the effect on U.S. commerce - though the extent required for extraterritorial application of the Lanham Act varies even among these Circuits; (2) the citizenship of the defendant; and (3) whether the application of U.S. law would conflict with the law of the country where the infringing activity took place.

This three factor test derives from *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633 (2d Cir.), cert. denied, 352 U.S. 871, reh'g denied, 352 U.S. 913 (1956), a case that involved the alleged infringement of the plaintiff's "Vanity Fair" trademark in Canada. The District Court dismissed for lack of subject matter jurisdiction and the Second Circuit affirmed. The defendant was a Canadian corporation which had registered its ownership of the "Vanity Fair" mark in Canada under

Canadian law. The court said that the defendant's use of the mark in Canada had a "substantial" effect on U.S. commerce. But the court nevertheless decided that U.S. trademark law should not be given extraterritorial effect, because the defendant was not a U.S. citizen, and because the application of U.S. trademark law to the defendant's Canadian activities would conflict with Canadian law. "We conclude," the court explained, "that the remedies provided by the Lanham Act . . . should not be given an extraterritorial application against foreign citizens acting under presumably valid trade-marks in a foreign country."

C-Cure Chemical Co. v. Secure Adhesives Corp., 571 F.Supp. 808 (W.D.N.Y. 1983), involved similar circumstances. There, the District Court granted the Canadian defendant's motion to dismiss for lack of subject matter jurisdiction, because although the defendant's activities in Canada had a "substantial" effect on U.S.

commerce, the defendant was a Canadian corporation, and there was a potential conflict with Canadian trademark law.

In *Totalplan Corp. of Amer. v. Colborne*, 14 F.3d 824 (2d Cir. 1994), the Second Circuit again affirmed the dismissal of a claim against a Canadian company that had affixed the plaintiff's trademark to cameras in the United States which were then exported for eventual sale in Japan. The court held that two of the three *Vanity Fair* "conditions" for application of the Lanham Act to the defendant's conduct were missing: the defendant was not a U.S. citizen; and the plaintiff had failed to show that the defendant's shipment of its cameras abroad had a "substantial" effect on U.S. commerce.

The recent *Trockadero* case appears to be the first time a court in the Second Circuit has found all three factors satisfied. Judge Koeltl found that *Torokka's* conduct did have a "substantial" effect on United States

commerce, because those activities diluted and damaged the Trockadero's marks and reputation as well as causing damage to its prospective business and licensing negotiations in Japan. Also, Torokka is an American corporation. And there was no conflict with Japanese trademark law, because expert testimony established that Torokka had no rights under Japanese law in the names it was using.

In the Fifth Circuit, "substantial" effects do not seem to be required; instead, it appears that "some effect" on U.S. commerce is sufficient to satisfy the "effect" factor. This principle stems from *American Rice, Inc. v. Arkansas Rice Growers Coop. Assn.*, 701 F.2d 408 (5th Cir. 1983), where the court affirmed an injunction barring the defendant from using a trademark in connection with its sales of rice in Saudi Arabia. The Fifth Circuit disagreed with the Second Circuit's requirement that there be a "substantial" effect on U.S.

commerce for U.S. trademark law to apply to activity abroad; instead (in footnote 8) it said that "some effect may be sufficient." In this case, the court found that the defendant's sales in Saudi Arabia "had more than an insignificant effect on United States commerce, even though none of the rice sold in Saudi Arabia made its way back to the U.S."; and the court ruled that this satisfied the "effects" requirement. The other two factors were satisfied also, because the defendant was an American corporation, and the defendant had not established that it had a right to use the trademark under Saudi Arabian law.

In the Seventh Circuit, it appears that even a slight effect on U.S. commerce may satisfy the "effect" factor. In *Scotch Whisky Ass'n v. Barton Distilling Co.*, 489 F.2d 809 (7th Cir. 1973), a District Court in Illinois ruled that it had subject matter jurisdiction over a claim that an American corporation had violated the plaintiffs'

rights under the Lanham Act by shipping empty bottles and labels from the U.S. to a distributor in Panama which filled the bottles with a blend of Scotch and Panamanian liquor and sold them in Panama, including the Canal Zone. The labels indicated that the product was "Scotch Whisky," which was a misdesignation of its origin under 15 U.S.C. sec. 1125(a) because it actually was a blend. The effect on U.S. commerce appears to have been quite small, because none of the mislabeled whisky filtered back to the United States and only a "few" sales were made in the Canal Zone. (The Canal Zone Code provides that U.S. trademark laws have the same force and effect in the Canal Zone as in the U.S.) Nonetheless, the Court of Appeals affirmed the District Court's subject matter jurisdiction. It noted that the injunction against the American corporation created no conflict with Panamanian law, because it had no right under Panamanian law to use the labels and no injunction had

been issued against the Panamanian bottler. The appellate court also emphasized that the defendant was an American, saying, "No principle of international law bars the United States from governing the conduct of its own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed. Congress has the power to prevent unfair trade practices in foreign commerce by citizens of the United States, although some of the acts are done outside the territorial limits."

Test used in 9th Circuit

The Ninth Circuit has its own test for deciding when U.S. trademark law should be given extraterritorial effect. The Ninth Circuit test was adopted from *Timberlane Lumber Co. v. Bank of America*, 549 F.2d 597 (9th Cir. 1976), a case that concerned the

circumstances under which U.S. antitrust laws would be given extraterritorial effect.

In the Ninth Circuit, trademark law should be given extraterritorial application (and thus courts have subject matter jurisdiction) if the following requirements are satisfied: (1) there must be some effect on American foreign commerce; (2) the effect must be sufficiently great to present a cognizable injury to the plaintiff under the Lanham Act; and (3) the interest of and links to American foreign commerce must be sufficiently strong in relation to those of other nations.

In deciding whether the third factor is satisfied, courts are directed to consider seven factors: (1) the degree of the conflict between U.S. and foreign law; (2) the nationality of the individual parties, and the locations or principal places of business of the corporate parties; (3) the extent to which enforcement of U.S. law is expected to achieve compliance; (4) the relative

significance of the effects the alleged infringement has in the U.S. as compared to elsewhere; (5) whether the defendant's explicit purpose was to harm U.S. commerce; (6) the foreseeability of such an effect; and (7) the relative importance to the alleged infringement of conduct occurring within the U.S. as compared to conduct abroad.

This unique multi-part test has not always been used in the Ninth Circuit. For a time, Ninth Circuit courts - at least District Courts in that Circuit - also relied on the test articulated by the Second Circuit in the *Vanity Fair* case, a test that (as noted above) has been adopted with slight variations in other Circuits as well. But the Ninth Circuit often goes its own way in intellectual property cases, and it did with respect to this issue too.

In *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428-29 (9th Cir. 1977), the Court of

Appeals vacated a District Court's decision that it did not have subject matter jurisdiction under the Vanity Fair test, including the requirement of "substantial" effects on U.S. commerce; rejected the notion that "substantial" effects are required; adopted the Timberlane Lumber test for trademark cases; and remanded for reconsideration in light of the newly-adopted test.

Though peculiar to the Ninth Circuit, the Wells Fargo list of factors have been used there ever since, by District and Circuit courts alike. Thus, in *Zenger-Miller, Inc. v. Training Team, GmbH*, 757 F.Supp. 1062 (N.D.Cal. 1991), a District Court applied the Wells Fargo factors and decided that it did not have subject matter jurisdiction over Lanham Act claims complaining of sales made by a German defendant in Germany. In *Ocean Garden, Inc. v. Marktrade Co.*, 953 F.2d 500 (9th Cir. 1991), the Court of Appeals applied those factors in affirming a District Court's subject matter

jurisdiction over Lanham Act claims based on sales of canned fish in the Far East, even though the fish were caught, processed and canned in Mexico. In *Reebok Intern., Ltd. v. Marnatech Enterprises, Inc.*, 970 F.2d 552 (9th Cir. 1992), the Court of Appeals again applied those factors and affirmed a District Court's subject matter jurisdiction over Lanham Act claims based on sales in Mexico. And most recently, in *Winterland Concessions Co. v. Fenton*, 835 F.Supp. 529 (N.D.Cal. 1993), a District Court applied those factors and determined it did have subject matter jurisdiction over Lanham Act claims based on sales in the United Kingdom.

Alternate grounds for subject matter jurisdiction

Subject matter jurisdiction is the most trademark-related basis for conferring jurisdiction on federal

District Courts. But diversity jurisdiction is a basis for federal court jurisdiction too, in all kinds of cases including trademark cases. This can be quite useful to plaintiffs in trademark cases involving foreign activity that may not have qualified under any of the various tests for subject matter jurisdiction.

Thus, in *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633 (2d Cir.), cert. denied, 352 U.S. 871, reh'g denied, 352 U.S. 913 (1956) - an action alleging trademark infringement in Canada (as well as in the U.S.) - the court ruled that "Regardless of the existence of the other asserted grounds for federal jurisdiction [under the Lanham Act], the allegations of diversity of citizenship and of the requisite jurisdictional amount were sufficient to vest the district court with jurisdiction over the entire action."

And in *Warnaco Inc. v. VF Corp.*, 844 F.Supp. 940 (S.D.N.Y. 1994) - a trademark action brought by

American companies against a Spanish corporation, complaining about the defendant's allegedly infringing sales in Spain and Portugal - a District Court in New York ruled that it had subject matter jurisdiction because there was complete diversity of citizenship between the parties and the amount in controversy exceeded \$50,000, regardless of whether or not it would have had jurisdiction on Lanham Act grounds as well.

Federal courts also have jurisdiction to hear cases involving federal questions; but reliance on this ground has not yet been successful in trademark cases complaining of infringements committed abroad. In *Alesayi Beverage Corp. v. Canada Dry Corp.*, 797 F.Supp. 320 (S.D.N.Y. 1992), a District Court in New York declined to exercise subject matter jurisdiction over counterclaims asserted by a U.S. corporation against a Saudi Arabian corporation, where the complained of trademark infringements took place entirely in Saudi Arabia.

In addition to rejecting jurisdiction based on what appears to have been section 1338(a), the court also rejected federal question jurisdiction, saying, "In appropriate cases, the Lanham Act in conjunction with 28 U.S.C. [sec.] 1331 [conferring federal question jurisdiction on U.S. District Courts] provides an independent jurisdictional basis for federal judicial cognizance of claims (or counterclaims). But recognition of such claims where the facts and their definable impacts solely involve conduct abroad is not appropriate. Committing a court of the United States to deal with events concentrated abroad without defined impact in this country. . . would be a dubious exercise. . . ."

Personal jurisdiction

In addition to having subject matter jurisdiction, courts also must have personal jurisdiction over a

defendant. And personal jurisdiction is not conferred by the plaintiff's residence or place of business in the district where suit is filed.

In order for a U.S. court to have personal jurisdiction over a defendant: (1) the requirements of the long-arm statute of the state in which the court is located must be satisfied; and (2) the long-arm statute must provide Constitutionally required due process. *International Shoe Co. v. Washington*, 326 U.S. 310 (1945). Thus, in *Asahi Metal Indus. Co. v. Superior Court of Cal.*, 480 U.S. 102 (1987), the Supreme Court held that due process would be violated by California courts asserting personal jurisdiction over a Japanese manufacturer of auto tire valves, because the Japanese company had insufficient contacts with the state of California. The Japanese company had sold its valves to a tire manufacturer in Taiwan, which in turn had sold those tires to distributors in California; and the Japanese company was aware that

some of its valves would eventually reach California. But these facts were insufficient to satisfy the fair play and substantial justice requirements of due process.

These same principles are applicable in international trademark infringement cases.

No personal jurisdiction, in the absence of sufficient contacts

Courts have routinely held they did not have personal jurisdiction over foreign defendants, in international trademark cases where those defendants did not have sufficient contacts with the state in which the case was filed.

Thus, in *Sears, Roebuck & Co. v. Sears plc*, 744 F.Supp. 1297, 752 F.Supp. 1223 (D.Del. 1990), a District Court in Delaware held that it did not have personal jurisdiction over a British corporation simply because it

incorporated a subsidiary in Delaware, where the alleged infringements were committed by the British corporation's non-Delaware subsidiaries outside of Delaware and did not arise out of the incorporation of the Delaware subsidiary.

Likewise, in *Victor Equip. Co. v. Armco Steel Corp.*, 208 U.S.P.Q. 434 (N.D.Tex. 1980), a District Court in Texas ruled that it did not have personal jurisdiction over a Mexican corporation with respect to the plaintiff's trademark infringement claim, because "except for isolated transactions and events," the defendant "transacts no business within the United States . . . , maintains no offices in this country, sells none of its products here, does not advertise in United States media, does not own or lease any real property here, . . . has never before been involved in American litigation [and] . . . is not licensed to do business in Texas." The court found that it did have personal jurisdiction over

the trade secret and fraud claims, because certain meetings resulting in those claims took place in Texas; but they did not lead to the alleged trademark infringements because the defendant could have infringed those trademarks without attending those meetings.

Finally, in *Leaf Confectionery, Inc. v. Life Savers, Inc.*, 204 U.S.P.Q. 363 (N.D.Ill. 1979), a District Court in Illinois held that it did not have personal jurisdiction over a Canadian defendant under the Illinois long-arm statute in a case seeking a declaratory judgment of non-infringement of the defendant's trademark. This was so, because although the complaint alleged a conspiracy between the Canadian defendant and its U.S. parent corporation, the Illinois long-arm statute does not authorize service of process on conspirators; because the complaint did not allege the defendant had committed any tort in Illinois; and because subsidiaries are not necessarily subject to suit in their parents' district.

Personal jurisdiction, if defendant has sufficient contacts

Where there are sufficient contacts, courts have asserted personal jurisdiction, even where all the activity took place abroad. *Zenger-Miller, Inc. v. Training Team, GmbH*, 757 F.Supp. 1062 (N.D.Cal. 1991), is such a case. There, the District Court found that it had personal jurisdiction over a German company by virtue of a contract clause in which that company consented to the jurisdiction of U.S. courts, even though the contract was negotiated and signed in Germany and the company performed all of its contractual duties there.

Choice of law

When events that occurred in one country become significant in trademark litigation in the courts of another country, choice of law issues arise, because in order to determine what legal consequences those events have, courts must decide which country's law to apply.

In the context of trademark law, the Supreme Court first addressed this issue as long as 70 years ago in *Ingenohl v. Olsen & Co.*, 273 U.S. 541 (1927). The case was a small part of the aftermath of World War I. In 1918, the U.S. Alien Property Custodian seized and sold to Olsen all of Ingenohl's property in the Philippines, including its cigar factor and trademarks. Ingenohl also owned a cigar factory and trademarks in Hong Kong. In a suit brought by Ingenohl against Olsen in Hong Kong, the Supreme Court of Hong Kong declared Ingenohl to be the owner of the trademarks in Hong Kong, rejecting Olsen's contention that its deal with the Alien Property Custodian gave it the right to

use those trademarks in Hong Kong as well as in the Philippines. (That is, the Hong Kong court apparently applied the law of Hong Kong, rather than the law of the Philippines, in deciding that the sale by the Alien Property Custodian had not effectively transferred Ingenohl's trademarks in Hong Kong.) When Ingenohl then sought to recover in a Philippine court costs that had been awarded against Olsen by the Hong Kong court, the Supreme Court of the Philippines refused to honor the Hong Kong judgment on the statutory grounds that it showed "clear mistake." But the U.S. Supreme Court granted certiorari and reversed, holding that Hong Kong trademarks are governed solely by the law of Hong Kong; and thus, when the Hong Kong court declared that the assignment by the Alien Property Custodian did not affect Ingenohl's rights in Hong Kong, it was not possible for the Philippines court to pronounce the Hong Kong court's decision wrong.

World War II was the backdrop to another such case - one that arose out of the nationalization of East German businesses by the Soviet Union at the end of that war. In *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686 (2d Cir. 1970), the court had to decide which of two German companies was the true owner of certain U.S. trademarks. Both companies claimed to be the successor of the original owner. And both parties agreed that the issue "must be determined by German law." They disagreed, however, about whether the applicable German law was that promulgated by East Germany or by West Germany. The court decided that West German law should be applied, which in this case meant that the plaintiff rather than the defendant was the successor to the original trademark owner and as such was the owner of the U.S. trademarks.

The nationalization of company assets also triggered another trademark ownership dispute. The case is

F. Palicio Y Compania, S.A. v. Brush, 256 F.Supp. 481, aff'd on opinion below, 375 F.2d 1011 (2d Cir.), cert. denied, Brush v. Republic of Cuba, 389 U.S. 830 (1967). As a result of the Castro government's nationalization of Cuban companies, a dispute arose in the United States over whether the former owners of a Cuban cigar manufacturer, or the Castro government's designated managers, were entitled to use U.S.-registered trademarks for Cuban cigars. The court applied U.S. law in deciding that confiscatory decrees of foreign governments will not be given effect in the U.S., even when such decrees are directed against the government's own nationals, unless the confiscation is consistent with U.S. law and policy, that is., unless compensation is paid. In this case, no compensation was paid. Thus the Castro's government's confiscation of U.S. trademarks was not recognized; and the original owners of the marks were

held to be their owners in the U.S., even though the Castro government was their owner in Cuba.

Geographic scope of remedies

In those cases where a U.S. court does have subject matter over a foreign infringement and personal jurisdiction over the alleged infringement, issues concerning the geographic scope of available remedies are raised. In international trademark cases, a common issue concerns the permissible geographic scope of injunctive relief: may a U.S. court issue an injunction prohibiting further infringements abroad, or only prohibiting further infringements within the U.S.?

This issue first arose more than a half-century ago in *George W. Luft Co. v. Zande Cosmetic Co.*, 142 F.2d 536 (2d Cir. 1944). The Second Circuit divided the world into three classifications: "(a) countries where

both parties are doing business and the defendants have established their right by the local law to use the name. . .; (b) countries where both parties are doing business and the defendants have not established such right; and (c) countries where the defendants are doing business and the plaintiff has not provided that it has ever done business or is likely to do it." In the class (a) countries, the court ruled that the plaintiff could not restrain the defendant or recover damages for the defendants' use of the trademark there; moreover, the court ruled that it could not enjoin or award damages for the defendants' "initiation of acts in the United States which constitute no wrong to the plaintiff in the country where they are to be consummated." In class (b) countries, "Activities in the United States which will be consummated in those countries constitute an infringement of the Trade-Mark Act. . ."; the decision implies that relief should not be granted in class (b) countries if no activity takes place in

the U.S. (though this decision predates those which have held that the Lanham Act has extraterritorial reach where foreign activity has an effect in the U.S.). No relief should be granted in class (c) countries, because trademark rights arise from use, not from mere adoption.

Extraterritorial injunction granted

The Supreme Court first dealt with the issue in *Steel v. Bulova Watch Co.*, 344 U.S. 280 (1952), where the Supreme Court held that if the facts proved at trial showed the defendant had committed infringements abroad, the District Court could award injunctive relief requiring the defendant ". . . to cease or perform acts outside its territorial jurisdiction" (i.e., in Mexico), if such an injunction would not conflict with the laws of Mexico and thus there would be ". . . no interference with the sovereignty of another nation. . . ."

Lower courts have followed the Supreme Court's lead on many occasions. The Trockadero case is the most recent one in which a court issued an injunction barring activity in another country. But it has happened several times before.

In *American Rice, Inc. v. Arkansas Rice Growers Coop. Assn.*, 701 F.2d 408 (5th Cir. 1983), the Fifth Circuit affirmed an injunction barring the defendant from using a trademark in connection with its sales of rice in Saudi Arabia.

In *King v. Allied Vision, Ltd.*, 807 F.Supp. 300 (S.D.N.Y.), *aff'd* in part and *rev'd* in part on other grounds, 976 F.2d 824 (2d Cir. 1992), the court enjoined a British defendant from exhibiting the movie "Lawnmower Man" anywhere in the world, based on a Lanham Act claim that it falsely represented Stephen King's involvement in the making of the film. The court said, "Extraterritorial jurisdiction is appropriate in the

present case because plaintiff has the exclusive right to his name throughout the world and his reputation will be irreparably harmed abroad by defendants' false representations in the foreign distribution of the film."

In *Calvin Klein Indus. v. BFK Hong Kong, Ltd.*, 714 F.Supp. 78 (S.D.N.Y. 1989), the court issued an injunction prohibiting the defendant from selling garments that were located in Pakistan to customers "in the United States, and in such other markets as Calvin Klein may demonstrate that it has established its presence, through either direct sales or licensees."

In *R.J. Reynolds Tobacco Co. v. Virginia Intl. Export*, 220 U.S.P.Q. 712 (E.D.Va. 1982), the court issued an injunction barring the defendant from exporting "Wilson's" cigarettes, which the court found were likely to infringe the plaintiff's trademark and trade dress for its "Winston's" cigarettes. "The Court is satisfied," it explained, "that it has the duty to protect the entire gamut

of purchasers, including non-English-speaking purchasers, in various foreign countries throughout the world to which the defendants intend to export their Wilsons cigarettes."

And in *Dunkin' Donuts Inc. v. Mercantile Ventures*, 22 U.S.P.Q.2d 1721 (W.D.Tex. 1992), the court issued an injunction against American defendants, and against at least one Mexican resident, prohibiting them from using an infringing trademark in Mexico.

Extraterritorial injunction denied

Extraterritorial injunctions are not a foregone conclusion, however. They have been denied or overturned as well, in several different Circuits.

In *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733 (2d Cir. 1994), which was a suit against a German corporation, an injunction was issued barring the defendant

from using an infringing mark abroad (as well as in the U.S.) if the foreign use might make its way to the American public. The Second Circuit vacated the injunction, saying that "Upon remand, the District Court may grant an extraterritorial injunction carefully crafted to prohibit only those foreign uses of the mark by Bayer AG [the German defendant] that are likely to have significant trademark-impairing effects on United States commerce."

In *Playboy Enterprises v. Chuckleberry Publishing, Inc.*, 511 F.Supp. 486 (S.D.N.Y. 1981), *aff'd*, 687 F.2d 563 (2d Cir. 1982), which was an action against American and Italian defendants, the court refused to grant an injunction prohibiting use of the "Playboy" trademark on magazines in the French, German, Japanese, Portugese and Spanish languages, even though Playboy is the registered owner of the mark in the principal countries in which these languages are spoken.

The Seventh Circuit, in *International Kennel Club of Chicago, Inc. v. Mighty Star, Inc.*, 846 F.2d 1079 (7th Cir. 1988), remanded for reconsideration an injunction which had prohibited the defendant from using an infringing trademark throughout North America. While the appellate court found that the injunction was proper for the U.S., it agreed with the defendants "that the scope of injunctive relief must not exceed the extent of the plaintiff's protectible rights." The case was remanded, because "There is some evidence in the record to support extending the injunction into Canada, but little in this record justifies its extension into Mexico at this time."

Finally, in *Nintendo of America, Inc. v. Aeropower Co.*, 34 F.3d 246 (4th Cir. 1994), the Fourth Circuit vacated an injunction prohibiting the defendant's use of an infringing trademark in U.S., Canada and Mexico. The appellate court held that reconsideration was

necessary, because although the District Court had found that uses in Canada and Mexico had a significant impact on U.S. commerce, it had not considered the defendant's citizenship or the possibility that its injunction might conflict with Canadian or Mexican law.

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[ELR 19:3:4]

WASHINGTON MONITOR

NHL's San Jose Sharks defeat opposition to registration of team's trademark; Trademark Trial and Appeal Board rules there is no likelihood of confusion between Sharks' mark and Sharkskin mark of clothing manufacturer that filed opposition to team's registration application

The San Jose Sharks are a National Hockey League expansion team. The Sharks' first opponent was not another NHL team, but was instead Sharkskins Surf Gear, Inc., a California clothing manufacturer. The contest between the Sharks and Sharkskins Surf Gear was not on an ice rink in California, but was instead in a hearing room of the Trademark Trial and Appeal Board in Washington, D.C.

The San Jose Sharks filed an intent-to-use application with the Trademark Office in March 1991, seeking registration of the team's trademark for clothing, including t-shirts, and entertainment services. The Sharks' application was opposed by Sharkskins Surf Gear which had been selling t-shirts bearing a similar trademark since January 1991 and which had already registered its mark for clothing, including t-shirts.

Following a trial that produced a "voluminous" record, the Trademark Trial and Appeal Board has dismissed Sharkskins Surf Gear's opposition to the Sharks' application. The Board did so, because it found that "confusion is not likely" to result from the Sharkskins Surf Gear's use of its mark on t-shirts and the Sharks' use of its trademark on clothing (including t-shirts) and in connection with professional hockey exhibitions.

In an opinion by Administrative Trademark Judge Cissel, the Board emphasized that while the two marks

shared certain similarities including a triangle design, they also "possess significant differences." Sharkskins Surf Gear's mark combines the word "Sharkskins" with a shark head design and does not have any elements related to hockey. The Sharks' mark, on the other hand, has no words and contains a design depicting the whole body of shark, complete with flippers and a dorsal fin, as well as a hockey stick being snapped in two by the force of the shark's jaws.

Judge Cissel minimized the significance of testimony about actual confusion given by witnesses called by Sharkskins Surf Gear. That confusion, Judge Cissel said, "took place in non-purchasing situations." The testimony showed that some people were reminded of the team's mark when they saw Sharkskins Surf Gear's mark, and that the marks generated questions or suspicions about whether there was a connection between the two marks. But the testimony "does not prove that

confusion is likely in the marketplace where clothing is sold," the judge concluded.

Sharkskins Surf Gear, Inc. v. San Jose Sharks, 1996
TTAB LEXIS 45 (1996) [ELR 19:3:13]

House of Representatives subcommittee adopts "nonlegislative report" on "Fair Use Guidelines for Educational Multimedia"; Guidelines also have been endorsed by Copyright Office, PTO and entertainment industry organizations

Quietly and with little fanfare, a House of Representatives subcommittee has adopted a "nonlegislative report" on "Fair Use Guidelines for Educational Multimedia." The Guidelines indicate the circumstances under which it would be a "fair use," rather than an

infringement, for educators and students to use portions of existing copyrighted works in the creation of multimedia projects, without first obtaining the consent of the owners of the copyrights to those works.

The Guidelines were drafted by representatives of people and companies that are in the business of creating copyrighted works, including the MPAA, the RIAA, ASCAP and BMI, as well as organizations whose members primarily use copyrighted works to create multimedia projects, such as the Association of American Colleges and Universities. The group was convened by the Consortium of College and University Media Centers.

By the Guideline's own terms, they apply only to the creation of educational multimedia projects by educators and students participating in systematic learning activities at nonprofit educational institutions. They do not apply to the creation of multimedia projects - even

those that are educational - intended for commercial distribution. Indeed, the Guidelines specifically state that educators and students "must seek" licenses before using copyrighted works in commercial educational multimedia projects.

In order for the use of an existing copyrighted work to qualify as a "fair use" under the Guidelines, no more than 10% of it may be used, and perhaps less. For example, if a copyrighted "motion media work" is incorporated into a multimedia project, no more than 10% or 3 minutes, whichever is less, may be used. For text material, no more than 10% or 1000 words, whichever is less, may be used. And for music, no more than 10% or 30 seconds, whichever is less, may be used. The Guidelines also specify limitations for the use of poetry, illustrations, photographs and "numerical data sets."

Even if these limits have been complied with, the Guidelines impose additional limitations on the number

of copies that may be made of the multimedia project, on the uses to which the multimedia project may be put, and on the length of time copies may be kept.

The Guidelines have been "adopted" by the House Subcommittee on Courts and Intellectual Property. In doing so, the subcommittee acknowledged that the Guidelines "do not represent a legal document, nor are they legally binding." The subcommittee did however express the view that the Guidelines "grant a relative degree of certainty that a use within the guidelines will not be perceived as an infringement of the Copyright Act by the endorsing copyright owners, and that permission for such use will not be required."

The MPAA, RIAA, ASCAP and BMI are among the "endorsing copyright owners," as are the Music Publishers Association, the American Society of Journalists and Authors, the American Society of Media Photographers, and others. The Copyright Office and the Patent

and Trademark Office also submitted "letters of endorsement" supporting the Guidelines.

Editor's note: These new Guidelines are the counterpart - for multimedia works - to guidelines adopted in 1976 for educational photocopying of material from books and periodicals. The book-and-periodical guidelines are not legally binding either. But they have been relied on by courts, most recently by the Sixth Circuit Court of Appeals in the Princeton University Press v. Michigan Document Services case. That was the case that held that it is not a fair use to photocopy material from books in order to prepare "coursepacks" for sale to college students. (ELR 19:2:14) In that case, the court noted that the amount of copying done by Michigan Document Services was "light years away from the safe harbor of the guidelines," and that this "weighs against a finding of fair use." Though the new multimedia Guidelines tell educators and students how much they may

copy without a license, it is likely that the Guidelines' actual effect will be to reduce the amount of copying educators and students otherwise might have done. And - as in the Princeton University Press case - the new Guidelines are more likely to be cited by courts for the proposition that they have been exceeded, and thus a complained-of use is not fair, than they are to be cited in support of a finding of fair use.

Fair Use Guidelines for Educational Multimedia, U.S. House of Representatives, Committee on the Judiciary, Subcommittee on Courts and Intellectual Property (1996), available on the Internet at <http://www.libraries.psu.edu/avs/fairuse/guidelinedoc.html>
[ELR 19:3:13]

INTERNATIONAL CASES

Quebec Court of Appeal upholds \$2,000 judgment in favor of woman whose photo was published in Vice-Versa magazine without her permission; photo was taken in public place and did not offend her honor or reputation, but court held that it violated her right to privacy

Important legal principles are sometimes established in simple cases involving little damage. One such case has recently been decided by the Quebec Court of Appeal. And the principle it establishes is that in Quebec, the publication of a person's photograph in a literary and artistic magazine, in a way that does not offend the person's honor or reputation, may constitute an invasion of that person's right to privacy.

This principle has been established, in what appears to be a precedent-setting decision, in a case brought by a young woman named Pascale Claude Aubry against photographer Gilbert Duclos and Les Editions Vice-Versa Inc., the publisher of the small-circulation literary and artistic magazine Vice-Versa.

Duclos had taken a photograph of Aubry, without her knowledge, while she was sitting on the outside stairway of a building on a street in Montreal. She was dressed "casually but decently." And the photo portrayed her as "a pretty young blond woman wearing a pair of slacks with a black sweater, somewhat expensive, her head turned slightly to the left." The photo was not used in connection with advertising. And the Court of Appeal made a point of noting that neither the photo itself nor its "mode of publication" offended Aubry's "honor or reputation." The issues thus raised by the case involved "the balance between interests and rights that

are sometimes in conflict: the right to privacy, the right to information, and perhaps the right to artistic creation."

The trial court resolved these issues in Aubry's favor and awarded her a judgment of \$2,000. The photographer and Vice-Versa's publisher appealed. But the Court of Appeal has "dismissed" their appeal, thus affirming the judgment.

The appellate court's opinion is a lengthy one, and it reviews both Quebec and French law on the right to privacy. The laws of both jurisdictions recognized a "right to one's image as such" which has been "absorbed" by the "right to privacy" - a right which the appellate court characterized as "a fundamental personality right." The court explained that "These rights at the very least protect [against] the dissemination and distribution of an image, even one taken in a public place, when the subject is the primary object of the image. Publication of

this image then violates the subject's anonymity by reproducing his features against his will, in the absence of a legitimate interest in public information."

While the laws of "some" European nations contain an "artistic activity justification" for the invasion of the privacy right, the appellate court found no such justification in Quebec law. Quebec law "recognized only an interest in information as a ground for limiting the right to the anonymity of one's private life." Had Aubry been photographed "as a member of a group, persons and premises included . . . her right to the protection of her privacy would have yielded to the requirements of circulation of socially useful information." But in this case, she was the sole subject of the photograph, and thus the publication of her photograph was not justified by the interest in information.

The court's majority also upheld the amount of the judgment that had been awarded Aubry. The only

evidence concerning her injuries was her own testimony that the publication of the photo "exposed her to teasing by her schoolmates." The majority held that this was "sufficient evidence of the existence of compensable moral injury." In so ruling, the majority noted that the amount of the \$2,000 judgment was "modest," and that "the assessment of moral injury is always a difficult task." (One judge however dissented from this portion of the decision, saying that in his opinion, the evidence of injury was not sufficient.)

Aubry v. Duclos, 71 C.P.R.3d 59, 141 D.L.R.4th 683 (Quebec Ct.App. 1996) (available in LEXIS Intlaw Library, Cancas File) [ELR 19:3:15]

RECENT CASES

California Attorney General concludes that school districts may deny movie producers permission to film on school property, based solely on the films' content, so long as the denial is "related to legitimate pedagogical concerns"

When Wes Craven was filming "Scream," he reportedly had a run-in with officials of a California school district. Craven wanted to use the campus of Santa Rosa High School to shoot certain scenes, but the school district denied him permission to do so solely because of the movie's content. According to news reports, Craven threatened to sue, and this prompted California State Senator Valerie Brown to ask the California Attorney General two questions of interest to virtually all movie makers. The first was whether school districts

may prohibit all movie filming on school property. And the second was whether school districts that permit some filming may nevertheless deny permission to film other movies based solely on their content.

In response to the Senator's request, the California Attorney General's office has issued a formal opinion that school districts may prohibit all filming on school property; and even if permission is granted for some movies, districts may refuse permission for others based on their content so long as the denial is "related to legitimate pedagogical concerns."

One California statute "encourages" local governments to issue permits for the use of their property for movie production, and another statute "authorizes" school districts to rent their facilities to movie production companies. But no California statute requires school districts to do either. So the Attorney General concluded

that movie producers do not have a statutory right to use school property.

The Attorney General also considered whether movie producers may have a constitutional right to use school property, either under the First Amendment or under the equivalent provision of California's state constitution. He concluded that schools are not "public forums," and thus school districts may refuse to permit any filming on school property without violating movie producers' constitutional rights.

The question of whether school districts may permit some movies to be filmed on school property, and deny permission for other movies based solely on their content was a more complex issue. Ultimately, the Attorney General decided the school districts could base their decisions on the content of the movies for which permission was sought, so long as there was a "legitimate pedagogical" reason for doing so. The Attorney

General based this conclusion on a United States Supreme Court decision that had held that "Control over access to a nonpublic forum can be based on subject matter and speaker identity so long as the distinctions are reasonable in light of the purpose served by the forum and are viewpoint neutral."

Even though schools don't sponsor movies, "the fact that permission must be granted by the school before a commercial filming project may be undertaken on school property tends to give such projects the imprimatur of the school." Also, the "natural curiosity of students about the role of their school in a new movie would provide a strong impetus for them to go to the theater and see the movie when it is released and/or later buy a copy of the movie on videotape." The Attorney General concluded that these facts are significant, because "by allowing the R-rated film to be shot on its property, the school would be placing itself in the

position of promoting material that many parents would find objectionable for viewing by their children." Moreover, "the district's own mandate to foster 'moral improvement' and teach students to refrain from the type of language that might be heard in an R-rated movie constitutes 'a valid pedagogical objective.'" The Attorney General concluded that these distinctions do not run afoul of the requirement that they be "viewpoint neutral," because "a film involving certain subjects would not be suitable for younger audiences regardless of the filmmaker's viewpoint about the subject."

The Attorney General also concluded that school districts could deny permission to film certain movies, "even if the material is age-appropriate," because "the school could decide that the issue treated in the movie is simply too controversial for the school to be associated with."

Editor's note: Opinions of the California Attorney General are not binding on courts in that state. They are simply advice to government agencies.

Opinion of the Attorney General, State of California, No. 96-809, 80 Op.Atty.Gen.Cal. 155, 1997 Cal.AG LEXIS 36, 1997 WL 327469 (1997) [ELR 19:3:16]

State Farm had no duty to defend Mulberry Square Productions - owner of copyright and trademark rights to "Benji" character - against claims made by HP Films and Vision International as a result of "a movie deal gone bad," because claims were not covered by comprehensive business liability insurance policy

"Comprehensive" business liability insurance policies are not really "comprehensive." They cover only those types of claims that arise out of what the policy describes as an insured "occurrence," and even some of those are not covered because policy provisions specifically exclude them. All of this has been made painfully clear to Mulberry Square Productions - the company that owns the copyright and trademark rights to the character "Benji" - as a result of a lawsuit it got involved in with HP Films and Vision International in the

aftermath of what a federal appellate court has described as "a movie deal gone bad."

In 1992, Mulberry entered into a written agreement with HP Films and Vision concerning their intended production and distribution of a movie to be called "Benji-Benji." In that agreement, Mulberry retained certain creative and character controls; and disagreements concerning creative issues soon led to a seemingly bitter dispute. The upshot was that Mulberry sued HP and Vision for breach of contract, and HP and Vision counterclaimed against Mulberry for tortious interference with contract and prospective business advantage.

This is when State Farm Fire and Casualty Company entered the picture. Mulberry had obtained a comprehensive business liability insurance policy from State Farm. So Mulberry demanded that State Farm defend it against HP's and Vision's counterclaims. State Farm

refused however, saying that the counterclaims were not covered by the policy.

Meanwhile, the lawsuit itself was submitted to arbitration, and the arbitrator ruled in favor of Mulberry on its claim and against HP and Vision on their counterclaims. With that gratifying victory under its belt, Mulberry then sued State Farm for bad faith refusal to provide coverage and a defense in connection with HP's and Vision's counterclaims. This time, however, Mulberry was not successful. Federal District Judge Dan Russell granted State Farm's motion for summary judgment, and the Court of Appeals has affirmed.

The State Farm policy provided Mulberry with coverage for damages it caused by defaming people or organizations or by disparaging their products or services. But in an opinion by Judge Carl Stewart, the appellate court said that "Nowhere in the counterclaims is there any allegation or even a hint that Mulberry

authored some oral or written publication that amounted to trade libel or product disparagement." Thus it held that "none of the allegations in the counterclaim triggered coverage under State Farm's policy."

Mulberry had a broader view of the counterclaims that had been made against it. It relied, for example, on statements made by HP's and Vision's attorneys in declarations filed in the original lawsuit, saying that those declarations showed that HP and Vision had really asserted claims for trade libel and disparagement. The appellate court was willing to go beyond the face of the counterclaim. But this did not help Mulberry, because the insurance policy specially excluded coverage for claims based on any statement made "with knowledge of its falsity." Since the counterclaim alleged that Mulberry "knew and intended" that its conduct would injure HP's and Vision's reputations, the counterclaim was excluded from the policy's coverage, the appellate court held.

Mulberry Square Productions, Inc. v. State Farm Fire and Casualty Co., 101 F.3d 414, 1996 U.S.App.LEXIS 33013 (5th Cir. 1996) [ELR 19:3:17]

Transamerica Insurance did not have duty to defend New England Patriots' player Michael Timpson in sexual harassment lawsuit filed by Boston Herald sports reporter Lisa Olson, because Timpson's alleged conduct was outside the scope of his employment and was intentional

Sports reporters regularly conduct post-game interviews in locker rooms while players are taking off their uniforms and showering. For a long time, professional sports and sports reporting were mostly male occupations, so player nakedness was not an issue. Those days are long gone however. Today, lots of sports

reporters are women, and they too go into locker rooms to do post-game interviews, because that's where such interviews have always been done.

Lisa Olson is a sports reporter for the Boston Herald, and in 1990, she was doing an interview in the New England Patriots' locker room with player Maurice Hurst. During that interview, other players, including Zeke Mowatt, stood next to Olson - naked as the days they were born - and made allegedly crude and vulgar comments to her. Patriots' player Michael Timpson allegedly "laughed and shouted encouragement" to Mowatt.

The locker room events of that day led to repercussions. The NFL itself imposed fines totaling \$72,500 on the Patriots, the team's owner Victor Kiam, and three players including Mowatt and Timpson. (ELR 12:8:21) Timpson was fined \$5,000, but that was not all his behavior cost him.

Olson filed a sexual harassment lawsuit of her own against the team and several players, including Timpson. Although the case was settled before trial, defending himself cost Timpson \$87,700 in attorney's fees. He had asked Transamerica Insurance Company to defend him at its expense, but it had refused. So when Olson's case was settled, Timpson sued Transamerica to recover his fees.

According to Timpson, Transamerica should have defended him, because the Patriots had a Transamerica insurance policy under which Timpson was an "additional insured" which required the company to pay legal expenses including attorneys fees if Timpson were sued in connection with things he allegedly did "within the scope of his duties" as a Patriot. Transamerica refused to defend or reimburse him in connection with the Olson case for two reasons. First, Transamerica said that the conduct for which Olson sued Timpson was not within

the scope of his duties as a Patriot. Second, the insurance policy excluded coverage for intentional acts, and Transamerica said that the conduct for which Olson sued Timpson was intentional.

Timpson and Transamerica made cross-motions for summary judgment, and a Massachusetts trial court ruled in favor of Transamerica and granted its motion. Timpson took his case to the Massachusetts Appeals Court, but that court too has ruled in Transamerica's favor and has affirmed the trial court's decision.

The appellate court ruled that Timpson's alleged locker room conduct was not within the scope of his Patriots' employment, because it was not the type of conduct he was employed to perform, and because sexual harassment was not the type of conduct "he ever would be legally employed to perform." Moreover, his alleged conduct did not serve the interests of the Patriots,

because it was in the team's best interests to maintain good relations with the news media.

The appellate court also ruled that Timpson's conduct was covered by the provision of the insurance policy that excluded coverage for intentional behavior. It was, the court said, because his locker room conduct was intentional even if he did not intend for it to hurt Olson.

For these reasons, the appellate court ruled that Transamerica had no duty to defend Timpson in the Olson case, or reimburse him for the expenses he incurred defending himself. For these same reasons, the court held that Transamerica's refusal to defend Timpson did not violate a Massachusetts statute that prohibits "unfair claims settlement practices."

Timpson v. Transamerica Insurance Company, 669 N.E.2d 1092, 41 Mass.App.Ct. 344, 1996 Mass.App.LEXIS 807 (1996) [ELR 19:3:17]

New York court does not have personal jurisdiction to hear suit by stage director Joe Mantello alleging that Florida theater and director copied Mantello's "unique direction and staging" of Terrence McNally's play "Love! Valour! Compassion!" in violation of rights granted to Mantello by Stage Directors' collective bargaining agreement

Terrence McNally's play "Love! Valour! Compassion!" was brought to the stage by director Joe Mantello, first at the off-Broadway Manhattan Theatre Club and then on Broadway at the Walker Kerr Theatre. The play won a Tony and several other awards. And Mantello

himself won Outer Critics Circle and OBIE awards for his direction of it.

Now, Mantello's direction of "Love! Valour! Compassion!" is the subject of an unusual lawsuit - perhaps the first of its kind - concerning the alleged violation of Mantello's rights in his direction and staging of the play. According to Mantello, his "unique direction and staging" of "Love! Valour! Compassion!," including its "stage movement, design, lighting and sound," were copied by Michael Hall when Hall directed the play at the Caldwell Theatre in Boca Raton, Florida.

Mantello is a member of the Society of Stage Directors & Choreographers which has entered into collective bargaining agreements with the Leagues of off-Broadway and Broadway producers. Both of those agreements contain clauses that grant the director all property rights in the direction of plays produced by League members. Mantello alleges that Hall attended

New York performances of the play, obtained literature describing the New York production, cast actors who had seen New York performances, and had instructed the designers of his Florida production to attend New York performances to obtain information about it.

Mantello made these allegations in a complaint filed in federal court in New York City asserting Lanham Act violations, copyright infringement, reverse passing off and unjust enrichment. Judge Michael Mukasey has dismissed the case, but not on its merits. Instead, the judge has ruled that he does not have personal jurisdiction over Hall or the Caldwell Theatre Company. Judge Mukasey explained that "Caldwell's business is the presentation of plays," but it has never presented "Love! Valour! Compassion!" or any other play in New York.

New York law gives courts in that state personal jurisdiction over non-residents if they are "engaged in . .

. a continuous and systematic course of `doing business'" in the state. Mantello had alleged that Hall and Caldwell have three "systematic and ongoing contacts" with New York: "Caldwell regularly enters into licensing agreements with New York entities or individuals for the rights to produce plays"; they "regularly hire New York actors for their productions and deal with their New York-based unions"; and Caldwell is a member of the New York-based League of Resident Theatres and participates in its activities, while Hall regularly travels to New York to see plays. However, the judge ruled that "Those activities do not constitute `doing business.'" The judge also ruled that Mantello's claims are not based on anything Hall or the Caldwell Theatre did in New York.

As a result, it appears as though Mantello's claims will be ruled on, if at all, by a Florida judge, unless this decision is appealed and overturned.

Editor's note: It may be that New York law is more conservative than California law in conferring personal jurisdiction over out-of-state defendants. Or it may be that federal judges in New York are simply more conservative than federal judges in California on this issue. Compare this case in which a federal judge in New York declined to assert personal jurisdiction over Florida-based defendants with *Roth v. Garcia Marquez* in which federal judges in the Ninth Circuit held that a California court did have personal jurisdiction over a defendant - author Gabriel Garcia Marquez - even though the defendant resided in Mexico (ELR 13:7:11).

Mantello v. Hall, 947 F.Supp. 92, 1996 U.S. Dist. LEXIS 16978 (S.D.N.Y. 1996) [ELR 19:3:18]

New Hampshire court has personal jurisdiction to hear lawsuit filed by The Beach Boys' Alan Jardine against Brian Wilson arising out of allegedly defamatory statements in Wilson's autobiography "Wouldn't It Be Nice"

New Hampshire is about as far from Southern California as it is possible to get. But an internecine lawsuit among members of The Beach Boys - who made a career out of singing about life under the warm Southern California sun - will be heard in that cold New England state, despite the best efforts of three defendants to get it dismissed for lack of personal jurisdiction.

The lawsuit in question is a defamation case brought by one member of The Beach Boys, Alan Jardine, and two California corporations through which The Beach Boys do business. It has been filed in New Hampshire against Beach Boy co-founder Brian Wilson,

writer Todd Gold, a partnership Wilson has with his psychologist Eugene Landy, and HarperCollins Publishers, the company that published Wilson's autobiography *Wouldn't It Be Nice*. The allegedly defamatory statements about which Jardine and his co-plaintiffs complain appear in that book.

Why exactly the lawsuit was filed in New Hampshire is unclear. Neither Jardine nor his corporate co-plaintiffs have any apparent connections with that state. Moreover, the defendants (except HarperCollins) affirmatively assert they have no contacts with the state either. As a result, Wilson, Gold and the Wilson/Landy partnership all sought dismissal of the lawsuit, on the grounds that New Hampshire does not have personal jurisdiction over them. The trial court denied their motion, however, and the New Hampshire Supreme Court has affirmed that denial.

According to the court, the defendants do have sufficient minimum contacts with New Hampshire, because the book was distributed and sold in the state and thus they "stood to profit from the sale of books in New Hampshire." The court also held that subjecting the defendants to suit in New Hampshire would not offend notions of fair play and substantial justice, because even though none of the parties is a New Hampshire resident, defamatory statements injure "readers of the statement" as well as those defamed. So "New Hampshire may rightly employ its libel laws to discourage the deception of its citizens." Also, the court said, if Jardine and his co-plaintiffs were defamed, they suffered injury in New Hampshire even though they don't reside there.

Editor's note: This is only one of at least two recent cases in which New Hampshire courts have decided to play host to defamation lawsuits filed by non-residents against other non-residents as a result of

statements that appear in nationally-distributed books. The other involves the autobiography of former Buffalo Bills quarterback Jim Kelly (ELR 18:6:16). New Hampshire, moreover, is not the only state that has an expansive view of its jurisdiction over out-of-staters. California too is willing to provide a forum for defamation lawsuits against those that have done virtually nothing within its borders, as illustrated by Barry Gordy's suit against a New York newspaper and columnist (ELR 19:1:10). These cases are the continuation of a trend that began with the Supreme Court's 1984 decisions in the Shirley Jones and Kathy Keeton cases (ELR 5:12:10) - a trend which shows no signs of reversing itself.

Brother Records, Inc. v. HarperCollins Publishers, 682 A.2d 714, 1996 N.H.LEXIS 99 (N.H. 1996) [ELR 19:3:19]

Court refuses to enjoin Interscope Records and Dr. Dre from using "Aftermath" as record label in trademark and dilution suit brought by heavy metal band named "Aftermath"

In the aftermath of his split from Death Row Records, Dr. Dre decided to form a new record company with Interscope Records to be called "Aftermath Entertainment." The name "Aftermath" was chosen to signify Dr. Dre's break from Death Row and his new venture. And it was chosen even though Dr. Dre and Interscope had obtained a Thomson & Thomson trademark report showing that "Aftermath" had already been registered as a service mark by a heavy metal band formed by Kyriakos Tsiolis.

Though Tsiolis' band has yet to reach "mainstream fame," it has attracted media attention as a result of live performances and the self-release of three

albums. Indeed, Dr. Dre's lawyer contacted Tsiolis and offered him \$5,000 for permission to use the "Aftermath" mark in connection with a "small R & B label." But Tsiolis refused, even when the lawyer offered him a \$20,000 recording contract.

When Dr. Dre and Interscope began promoting their new label, Tsiolis sued for trademark infringement and dilution, and he sought a preliminary injunction. Federal Judge Norgle has refused to grant such an injunction, however, for three reasons.

First, the judge found that "Aftermath" was not entitled to trademark protection because it was at best descriptive (rather than suggestive or fanciful). Thus the mark would be entitled to protection only if it had acquired secondary meaning, which the judge found it had not.

Second, Judge Norgle ruled that even if the mark were entitled to protection, Tsiolis had not proved any

likelihood of confusion between his band and Dr. Dre's record company. In so finding, the judge was influenced by testimony that heavy metal and rap recordings are separately displayed in record stores and are purchased by different types of customers, all of whom are likely to use a high degree of care in making their selections. The judge also noted expert testimony that indicated that it is unusual for a band to market its recordings on a label of the same name, while it is not unusual for bands and record companies to share the same name even though the band does not record for the like-named label. (He cited, for example, Eric Clapton's band "Cream" and an American label by that name, as well as the five different record companies that used the "Imperial" name and Little Anthony & the Imperials which recorded for a different label.)

Third, with respect to Tsiolis' dilution claim, the judge ruled that the mark was not sufficiently distinctive to warrant dilution protection.

Editor's note: The result in this case was not a foregone conclusion. Many years ago, Bootsy Collins and Warner Bros. Records were held liable for their use of the name "Rubber Band" which a court held infringed the service mark "Rubberband" - a mark that had been registered by Thomas Stuart whose band had recorded some albums on minor labels and performed live concerts at locations in the South but had never been very profitable. In that case, Stuart was awarded \$250,000, though Warner Bros. and Collins were not enjoined from continuing to use the "Rubber Band" mark. (ELR 2:10:3) On the other hand, the "Aftermath" result was not unprecedented either. Recently, it was held that MCA Records' use of "Uptown Records" for a rap label does not infringe unregistered trademark rights of an

independent jazz label also called "Uptown Records," because the court found no likelihood of consumer confusion. (ELR 17:11:7, 18:7:32) And before that, the group Aerosmith defeated a service mark claim brought by the group Pump complaining about the title of Aerosmith's album "Pump." (ELR 12:9:4) The results in all of these cases are very fact-specific, and trademark law gives judges considerable latitude in deciding whether a mark is entitled to protection and if so whether an alleged infringer's use is likely to cause consumer confusion.

Tsiolis v. Interscope Records, Inc., 946 F.Supp. 1344, 1996 U.S.Dist.LEXIS 16827 (N.D.Ill. 1996) [ELR 19:3:20]

Le Ballets Trockadero wins preliminary injunction barring competing all male satirical ballet troupe from using name "Les Ballet Torokka" in Japan (as well as U.S.); federal District Court rules that Lanham Act has extraterritorial application in this case

The all male satirical ballet troupe known as "Les Ballet Trockadero de Monte Carlo" has obtained a preliminary injunction against a competing troupe whose owner called it "Les Ballets Torokka de Russia." The nicknames for both groups include "Trocks," "Trockadero" and similar-sounding words. And according to the plaintiff, the similarity of their names was likely to confuse ballet fans into mistakenly believing that the two groups were somehow related.

In fact they were related, but only in a way that created bad blood. The president and sole shareholder of the New York corporation that organized "Les Ballets

Torokka" - a man named Kyoichi Miyazaki - is the same man who owns the Japanese company that had promoted "Les Ballets Trockadero" in Japan for years, pursuant to a contract that gave him the exclusive right to do so. Though the original Trockaderos were founded in New York, they give some forty performances in Japan every summer, and those performances generate 80% of their annual revenue. Moreover, the Torokka's artistic director, Victor Trevino, is a former Trockadero ballet dancer. Apparently, Miyazaki and Trevino intended to bring their Torokka troupe to Japan during the winter, because during the summer of 1996, flyers were inserted in programs for the Trockadero's performances in Japan promoting the Torokka troupe as the "Trockadero's Winter Company" and its upcoming tour as the "Trockadero Winter Version."

In granting the preliminary injunction sought by the Trockaderos, Federal District Judge John Koeltl

rejected the defendants' contention that the name "Trockadero" and its variations are generic terms that describe all male satirical ballet groups, rather than any particular troupe. The defendants argued this was so, because they said that two other all male ballet groups have the word "Trockadero" in their names. But the judge was unpersuaded. He ruled that "there is no credible evidence that 'Trockadero' is a generic term for an all male ballet group." Instead, Judge Koeltl agreed with the plaintiff that "the term 'Trockadero' and its derivations have no independent relevance to the product at issue - all male satirical ballet - except to the extent that they have come to be associated exclusively with the plaintiff." In fact, the judge ruled, the word "Trockadero" and its derivations are "arbitrary," and as such are entitled to trademark protection.

After doing a multi-part "likelihood of confusion" analysis, the judge concluded that confusion was likely.

He therefore issued an injunction that bars the defendants from using the words "Torokka," "Trockadero," "Trocks" and some others.

Perhaps the most remarkable thing about Judge Koeltl's injunction is that it applies in Japan as well as the United States. The judge rejected the defendants' argument that the case "should be dismissed because the proceeding should take place in Japan under Japanese law." Instead, he found that under the circumstances of this case, the Lanham Act has extraterritorial application, and therefore reaches the defendants' activities in Japan. For more on this aspect of the case, see "Pursuing the Home Court Advantage in International Trademark Litigation" by Lionel S. Sobel, at page 4 of this issue (ELR 19:3:4).

Les Ballets Trockadero de Monte Carlo, Inc. v. Trevino, 945 F.Supp. 563, 1996 U.S. Dist. LEXIS 16326 (S.D.N.Y. 1996) [ELR 19:3:20]

Panavision wins trademark dilution suit against defendant who registered and used "panavision.com" and "panaflex.com" as his own Internet domain names, without Panavision's consent

Dennis Toeppen is Internet savvy and alert to opportunity. As a result, the Illinois resident has registered more than a dozen Internet domain names, and he maintains active World Wide Web sites for at least some of them. One of his domain names is "panavision.com," and his "www.panavision.com" web site displays aerial views of Pana, Illinois. He also registered the domain name "panaflex.com," though his web site for that

domain displays nothing more interesting than the word "hello."

Those in the movie business, and many who aren't, recognize the names "Panavision" and "Panaflex" as trademarks used by Panavision International in connection with its movie and television camera business. Indeed, a federal judge has found that Panavision's trademarks are "famous."

Yet when Panavision sought to register its own trademarks as domain names, it found that it couldn't, because Toeppen already had. Toeppen offered to sell "panavision.com" to Panavision for \$13,000. But Panavision chose to sue instead, for trademark dilution under federal and California law.

Panavision has won. Federal District Judge Dean Pregerson has ruled that Panavision's marks are protected by federal and state antidilution statutes, that Toeppen made a commercial use of them by registering

them for the purpose of selling them, and that Toeppen's use eliminated "the capacity of the Panavision marks to identify and distinguish Panavision's goods and services on the Internet," and has thus "diluted Panavision's marks within the meaning of the statute."

The judge acknowledged that the federal Dilution Act permits certain uses, including non-commercial uses; and the judge suggested that if a citizen of Pana, Illinois, had innocently registered "panavision.com" in order to provide a community political forum, that use "would come under exemption for non-commercial use." Toeppen was not such a citizen however.

Judge Pregerson did rule in Toeppen's favor on two issues. He held that Panavision had not proved its claim for intentional interference with prospective business advantages. Perhaps of greater interest to others, the judge also held that Panavision was not a third-party beneficiary of the domain name registration contract

between Toeppen and Network Solutions, Inc., which is the company that registers Internet domain names. Thus, the court rejected Panavision's breach of contract claim against Toeppen. That claim had been based on a provision in the NSI contract concerning domain name disputes. But the judge held that the sole purpose of that provision is to protect NSI, not to benefit trademark owners.

The judge has enjoined Toeppen from continuing to use the "panavision.com" and "panaflex.com" domain names, and has ordered him to transfer the registrations of those domains to Panavision.

Panavision International, L.P. v. Toeppen, 945 F.Supp. 1296, 1996 U.S.Dist.LEXIS 19698 (C.D.Cal. 1996) [ELR 19:3:21]

Trial judge improperly closed court to journalists during trial of Sandra Locke's lawsuit against Clint Eastwood, California appellate court rules

Sandra Locke's lawsuit against Clint Eastwood involved newsworthy allegations of deceit and other wrongs he allegedly committed in connection with movie projects she had been developing. So naturally, when the case went to trial, reporters wanted to be in the courtroom.

The trial, however, was before an unsequestered jury, and the trial judge wanted to be certain that inadmissible evidence didn't reach the jurors through television reports and newspaper articles. To do this, Judge David Schacter entered an order excluding the public and journalists during proceedings that were to take place outside the presence of the jury. Judge Schacter also issued an order that prohibited the release of

transcripts of all non-jury proceedings until the trial was done.

Television station KNBC-TV, the Los Angeles Times and California Community News immediately filed a petition with the California Court of Appeal, challenging the trial judge's orders. The appellate court has agreed with those news organizations that Judge Schacter's orders violated the First Amendment. The appellate court ruled that the public and the press have a First Amendment right to be in court during civil trials.

The appellate court recognized Judge Schacter's "legitimate concerns relating to juror exposure to inadmissible evidence." But that concern was not sufficient to close all non-juror proceedings, because the closure order did not indicate what inadmissible evidence may have been disclosed to the jury by news reports. Moreover, the appellate court ruled, even the exposure of jurors to inadmissible evidence does not warrant closure

of all non-jury proceedings in every case, because "There are other means, short of closure, by which the fair trial right can be protected, including voir dire of potential jurors and admonitions to disregard news reports."

As a result, the appellate court issued a writ of mandate directing Judge Schacter to vacate his closure order.

NBC News Subsidiary (KNBC-TV), Inc. v. Superior Court, 56 Cal.Rptr.2d 645, 1996 Cal.App.LEXIS 875 (1996) [ELR 19:3:22]

Manufacturer of board game "Clever Endeavor" was not entitled to recover anticipated lost profits from game's distributor, despite distributor's alleged breach of licensing agreement, because manufacturer was new business whose future profits could not be established with reasonable certainty and thus their recovery was barred by "new business rule"

MindGames, Inc., was certain that its new board game Clever Endeavor was the next big thing, on par with such best-sellers as Pictionary and Trivial Pursuit. After selling 30,000 copies on its own in 1989, MindGames entered into a licensing agreement with Western Publishing Company, Inc., authorizing Western to market and distribute the game. And in fact, Western sold 165,000 copies of Clever Endeavor in 1990. The bubble soon burst, however. Sales fell off dramatically in 1991,

and by 1993, Western had cut the game's price "drastically" in order to "eliminate excess stock."

MindGames responded to this indignity by suing Western for breach of their licensing agreement. Along with other damages, MindGames sought \$40 million as "lost profits" it believes it would have earned if Clever Endeavor had been marketed correctly. Western filed a motion for partial summary judgment, arguing that the Arkansas "New Business Rule" applied to MindGames' claim, and that the rule barred new and unestablished businesses like MindGames from recovering lost profits in contract or tort cases, because such businesses cannot establish lost profits with reasonable certainty.

Federal District Judge Robert Warren has agreed with Western, and has held that MindGames "cannot, as a matter of law, recover its lost profits from anticipated sales of Clever Endeavor." In so ruling, Judge Warren noted that "this dispute arises out of the entertainment

industry which further reduces the certainty of MindGames' profits, making it more difficult to justify an award of lost profits." MindGames argued that the "New Business Rule" had been eroded in Arkansas, but the judge was not persuaded that this was so or that it mattered. Judge Warren explained that "Even in states which do not adopt the strict application of the 'New Business Rule,' such as New York, the influence of the entertainment industry does not go unnoticed." The New York Court of Appeals once said "New York has long recognized the inherent uncertainties of predicting profits in the entertainment field in general." And the Second Circuit quoted that assessment in deciding a case involving a book publishing dispute (ELR 11:7:14).

Judge Warren also rejected MindGames' contention that it wasn't really a "new business" and thus shouldn't have been limited by the "New Business Rule" for that reason. "All told, Clever Endeavor was on the

market for approximately six months before the licensing agreement began," the judge observed. "Additionally, in those six months, MindGames did not turn a profit. Because Clever Endeavor did not have an established record of profitability, and because it had such a short lifespan, it qualifies as a new business, subject to the application of the `New Business Rule.'"

Western Publishing Company, Inc. v. MindGames, Inc.,
944 F.Supp. 754, 1996 U.S.Dist.LEXIS 16300
(E.D.Wisc. 1996) [ELR 19:3:22]

Playboy's request for preliminary injunction against enforcement of new Telecommunications Act provision requiring scrambling or time channeling of cable-TV channels dedicated to sexually oriented programming is denied; Supreme Court affirms ruling

Playboy won the first round, but not the second or third. As a result, a provision of the Telecommunications Act of 1996 has now gone into effect - one that the government was briefly barred from enforcing as a result of a temporary restraining order Playboy had obtained in a federal court lawsuit against the Department of Justice and FCC. That TRO has now been vacated.

Section 505 of the Telecommunications Act requires cable-TV systems to scramble the video and audio signals of channels devoted to sexually oriented and indecent programming, or to stop showing such

programming "during the hours of the day . . . when a significant number of children are likely to view it." FCC regulations implementing this provision require cable systems to completely scramble adult channels or to show them only between 10 p.m. and 6 a.m.

Immediately after section 505 of the Telecommunications Act was to have taken effect, Playboy obtained a temporary restraining order barring its enforcement. At that stage of the case, federal District Judge Joseph Farnan ruled that Playboy was likely to be able to prove that section 505 was more restrictive than necessary, because other less-restrictive means - like lockboxes - were available to achieve the objectives sought by Congress. (ELR 18:5:14)

The case was then heard by a three-judge panel. Playboy (and co-plaintiff Graff Pay-Per-View) asked the panel to extend the TRO and issue a preliminary injunction against section 505's enforcement. But in an opinion

by Judge Jane Roth, the panel has denied Playboy's request. Judge Farnan was a member of the panel, and he concurred in its decision.

The panel rejected Playboy's contention that section 505 violates First Amendment free speech protections, the Equal Protection clause of the Fourteenth Amendment, and is unconstitutionally vague.

The panel found that the government has a compelling interest in protecting children from sexually oriented programming. It also found that even if complete scrambling imposes an economic burden on cable systems, the alternative that permits cable systems to show such programs between 10 p.m. and 6 a.m. is a constitutional, less-restrictive alternative.

Playboy contended that the law denies it equal protection, because other networks like HBO and Showtime also show sexually explicit programming, but cable systems are not required to scramble or time-channel

their signals. The panel, however, found there to be a "significant difference" between Playboy and these other channels, because all of the programming shown on Playboy is sexually explicit while on other channels, "sexually explicit shows constitute only a fraction of the programming."

Finally, the panel rejected Playboy's argument that the statute was vague, saying that "over time," the term "indecent" has been "sufficiently defined."

Playboy appealed the panel's ruling to the Supreme Court, but the Supreme Court affirmed the panel's judgment without writing an opinion of its own.

Editor's note: The panel's decision was surprising for two reasons. First, Judge Farnan's opinion in connection with the TRO was well-reasoned, yet even he voted (in effect) to reverse that opinion. Second, after hearing argument on the case, the panel decided to wait until the Supreme Court had ruled in Denver Area Educational

Telecommunications Consortium v. FCC, because that case involved a similar issue, namely, the constitutionality of section 10(b) of the Cable TV Act of 1992 which required cable systems to put leased-access sexually oriented programming on a single channel that was blocked (by scrambling or otherwise) unless subscribers made written requests for the channel to be unblocked. The Supreme Court eventually held that section 10(b) was unconstitutional because it was not the least restrictive method for achieving its objectives (ELR 18:5:14). Thus, on its face, the Denver Area opinion appears to support Playboy, not the government. Yet, despite waiting for that opinion, the panel upheld the government's position, not Playboy's. The reason for this surprising result appears to be that during the preliminary injunction stage, the government argued that the purpose of the statute was to protect children from "signal bleed" - a term used to describe the ability of some cable

subscribers to see and hear fragments of signals from channels they have not subscribed to. The number of cable subscribers who actually get "signal bleed" was not proved at the preliminary injunction stage of the case. And in a footnote to its decision, the panel appears to leave open the possibility that if at a later trial Playboy shows the number is small, it might issue a permanent injunction, implying that if the number of "signal bleed" cases is small, the benefits of the statute will be outweighed by its burdens.

Playboy Entertainment Group, Inc. v. U.S., 945 F.Supp. 772, 1996 U.S. Dist. LEXIS 17000 (D. Del. 1996), *aff'd*, 117 S.Ct. 1309, 1997 U.S. LEXIS 1940 (1977) [ELR 19:3:23]

Indictment charging cable-TV executive with filing false Statements of Account with Copyright Office is dismissed, because Copyright Office is not an "agency" within the meaning of the statute that makes it a crime to make a false statement to a federal agency

It was a wrong thing to do, but not a crime, at least not a federal crime. That is the essence of the ruling that has enabled a Pennsylvania cable-TV executive to escape federal prosecution on charges he submitted false statements to a federal agency - something which would have been a federal offense, if he had done so. Whether the statements submitted by the executive were actually false was not determined by the court, because the judge decided that the federal office to which they were submitted was not an "agency" within the meaning of that statute.

Harry F. Brooks is the executive in question. He is vice-president of Suburban Cable TV Co., a cable company that retransmits television broadcasts of copyright-protected programming pursuant to the cable-TV compulsory license found in the Copyright Act itself. While the license is compulsory - Suburban Cable doesn't have to negotiate with copyright owners in advance - it isn't free. The Copyright Act requires cable systems, like Suburban, to submit twice-yearly Statements of Account to the Copyright Office indicating the rates they charge their subscribers and their total revenues. These figures are the basis for calculating the royalties cable systems must pay to the Copyright Office which it then distributes to the owners of the copyrights to the retransmitted programming.

Brooks was charged with underreporting Suburban Cable's rates and revenues, and thus the royalties it owed. As a result, he was indicted for violating section

1001 of Title 18 of the United States Code (the federal criminal code) which makes it a crime to make a false statement to "any department or agency of the United States." Brooks moved to dismiss the indictment, arguing that the departments and agencies referred to in that statute are those of the executive branch only, while the Copyright Office is part of the legislative branch.

Judge Edward Cahn has agreed with Brooks. An earlier decision of the United States Supreme Court had held that the statute's use of the word "department" meant executive branch departments only, not departments of the judicial or legislative branches of the federal government. And Judge Cahn concluded that the word "agency" is limited to executive branch agencies too. The judge also found that the Copyright Office is part of the legislative branch of government, not the executive branch, because "The Copyright Office is part of

the Library of Congress" which "is clearly part of Congress."

As a result, Judge Cahn ruled that the statute did not apply to false statements submitted to the Copyright Office, and he dismissed the indictment against Brooks.

U.S. v. Brooks, 945 F.Supp. 830, 1996 U.S.Dist.LEXIS 17130 (E.D.Pa. 1996) [ELR 19:3:24]

Federal court refuses to dismiss indictment of defendant accused of violating Protection of Children Against Sexual Exploitation Act; court rejects constitutional challenges to Act, and holds that it applies to accused's transmission of GIF, JPG and ZIP files over America Online

Congress has responded to the advent of online communication services - and the ability to use such services to distribute sexually explicit images - with at least two new statutes. The most newsworthy of these was the Communications Decency Act which made it a crime to transmit indecent or patently offensive material to minors over the Internet. That Act has recently been declared unconstitutional by the Supreme Court (ELR 19:2:7). However, Congress' other effort - the Protection of Children Against Sexual Exploitation Act - is faring better, so far.

The Protection of Children Against Sexual Exploitation Act makes it a crime to send, receive or possess "visual depiction[s]" of minors engaged in sexually explicit conduct, if those depictions have been transported in interstate or foreign commerce "by any means including by computer."

An America Online user named Michael Lamb has been charged with violating the Protection of Children Act. He has been accused of sending GIF, JPG and ZIP files containing visual images of children engaged in sexual conduct to other AOL users. His defense began with several pretrial motions in which he challenged the Act's constitutionality and its applicability to his conduct. But District Judge Howard Munson has rejected those challenges.

In a lengthy decision, Judge Munson has ruled that the Act is not unconstitutionally vague, is not overbroad, and does not violate the due process clause. The

judge also has ruled that GIF, JPG and ZIP files are "visual depiction[s]" within the meaning of the Act, even though such files "are not visual depictions themselves" but instead are "computer data" that require "software and a computer to view the images within."

U.S. v. Lamb, 945 F.Supp. 441, 1996 U.S. Dist. LEXIS 16892 (N.D.N.Y. 1996) [ELR 19:3:24]

Copyright infringement suit by authors of pamphlet about how to play contract bridge against authors and publishers of other books about bridge is dismissed, because court did not have subject matter jurisdiction over reproduction and derivative work claims against Canadian authors and publishers, and did not have personal jurisdiction over Canadian publisher in connection with importation claim, and because claims against American defendants were barred by statute of limitations and lack of substantial similarity

In 1980, Keith and Shirlee Iverson wrote a 39-page pamphlet on how to play contract bridge. The game of bridge has been the subject of countless books, and during the 1980s, at least three more were published which, according to the Iversons, were copied from their own work. The Iversons made this assertion in a

copyright infringement lawsuit, filed in federal District Court in South Dakota.

Two of the offending books were written and published in Canada by Canadians. Judge Richard Battey dismissed those claims on the grounds that he did not have subject matter jurisdiction to rule on infringements allegedly committed in Canada. In so ruling, the judge relied on the Ninth Circuit's decision in the Subafilms case (ELR 16:5:10).

The Canadian publisher had allegedly shipped copies of one of the books to a store in South Dakota. Though Judge Battey found he would have subject matter jurisdiction over the resulting claim for infringement of the exclusive right to import, the judge ruled that he did not have personal jurisdiction over the Canadian publisher in connection with that claim.

The Canadian publisher also had licensed an American company to republish one of the books in the

United States; and the Iversons sued the American publisher too. However, they waited too long before doing so. The license was terminated more than three years before the Iversons filed their suit, and the American company stopped publishing the book as soon as the license was terminated. As a result, Judge Battey held that the Iversons' claim against the American publisher was barred by the statute of limitations.

The third offending book was published by the American Contract Bridge League. Judge Battey dismissed the Iversons' claim with respect to that book on the grounds that the ACBL's book was not substantially similar to their own. Such similarities as did exist, the judge noted, were explained by the fact that both works were about how to play contract bridge.

Iverson v. Grant, 946 F.Supp. 1404, 1996 U.S. Dist.LEXIS 20463 (D.S.D. 1996) [ELR 19:3:25]

Denial of visas to members of Cuban musical group is upheld by federal District Court, in case brought by sponsors of group's U.S. tour

The sorry state of Cuban-American relations has spilled over into the entertainment business. A planned U.S. tour by the Cuban musical group Grupo Mezcla was canceled when five of the group's eight members were denied visas. The tour's sponsors - Accion Latina, Pastors for Peace, and Global Exchange - challenged the government's visa decision in federal District Court in San Francisco, because at least one performance was to have taken place at a festival in that city.

Visas were denied to the group's members under a Proclamation signed by President Ronald Reagan in 1985 which "suspended" entry into the U.S. by individuals who the Secretary of State considers to be "officers or employees of the Government of Cuba or the

Communist Party of Cuba." Earlier in the case, Judge Vaughn Walker rejected some of the tour sponsors' arguments, and thus he granted parts of the government's motion for summary judgment. (ELR 18:10:16) In that ruling, the judge denied "without prejudice" other parts of the government's motion. The government renewed its motion with respect to those parts of the case; and this time, Judge Vaughn has granted it.

The decision of a consular officer to deny an alien's request for a visa is immune from judicial review, unless the decision was influenced by interference from the Secretary of State. In this case, however, there was no such interference, according to an un rebutted declaration submitted by the consular officer in Cuba who made the decision to deny the visas in question. "Because the decision to deny the visa requests of the excluded members of Grupo Mezcla was made by a consular official, the court has no jurisdiction to review

it," Judge Vaughn held. "Moreover," he said, "this conclusion deprives the court of subject matter jurisdiction over the remainder of plaintiffs' claims." The case has therefore been dismissed.

Encuentro Del Canto Popular v. Christopher, 944 F.Supp. 805, 1996 U.S.Dist.LEXIS 12001 (N.D.Cal. 1996) [ELR 19:3:25]

DEPARTMENTS

Book Note:

International Sports Law and Business by Aaron N. Wise and Bruce S. Meyer

This new treatise is a three volume work by Aaron N. Wise who practices in the sports law field in New York City as a partner of Klepner & Cayea, LLP, and Bruce S. Meyer who also practices sports law in New York City as a partner of Weil Gotshal & Manges. The three volumes are divided into five large parts.

Part I deals with the law and business of sports in the United States. Besides extensively covering major transactional and structural areas of U.S. sports law, Part I contains detailed coverage of areas such as features of the new NHL and NBA collective bargaining

agreements; problems of and visas for foreign athletes; international application of the U.S. antitrust laws to overseas league expansions; stadiums and arenas; and important drug issues.

Part II deals with the internationalization of sports. Its coverage includes: analyses of leagues which are or intend to become bi- or multinational; international expansion plans of the major North American leagues; agreements between those leagues and international and foreign federations and leagues; international sports litigation in the U.S. courts; and international sports arbitration.

Part III is a first in sports law books: a detailed treatment, country by country of the law and business of sports in 18 other jurisdictions, in some cases with focus on particular sports (e.g., ice hockey in Russia and the Czech/Slovak Republics; baseball in Japan, Mexico, the Caribbean and Venezuela; basketball in Italy and

Greece; and soccer in many countries). The European Community is treated extensively.

Part IV deals with the various legal and practical issues connected with broadcasting and sports. While the United States is the main focus, extensive coverage is given to broadcasting issues in other countries (e.g., Europe, including EC law, and Japan). The drafting of domestic and international TV rights deals is covered in considerable scope.

Part V deals with sports marketing. The larger portion of Part V covers the United States and is directed at licensing, sponsorships, endorsements, athlete publicity rights, trading cards, trademark litigation, ambush, how rights are split up between leagues, teams and players in pro sports and conflicts in this area. The remainder of Part V aims at foreign and international aspects. Licensing and sponsorships in the E.C., Latin America, and the Far East are covered in detail, as are

many of the same subjects dealt with in the chapters devoted to the U.S. All of the Parts contain extensive Exhibits, including sample contracts.

International Sports Law and Business can be purchased as a set or by individual volume from Kluwer Law International, 675 Massachusetts Avenue, Cambridge, Mass. 02139, phone: (617)354-0140; fax: (617)354-8595; E-mail: marketing@kli.com. Those outside of the Western Hemisphere should direct their orders to Kluwer Law International, P.O. Box 85889, 2508 CN Hague, Netherlands; phone: 31 70 308 1560; fax: 31 70 308 1515; E-mail: sales@kli.wkap.ni. [ELR 19:3:27]

In the Law Reviews:

Law and Contemporary Problems, published by Duke University School of Law, Durham, North Carolina 27706, has issued Volume 59, Number 2 as a symposium on The Lanham Act After Fifty Years with the following articles:

A Personal Note on Trademark and Unfair Competition Law Before the Lanham Act by Milton Handler, 59 Law and Contemporary Problems 5 (1996) (for address, see above)

Trademarks and Competition: The Recent History by Daniel M. McClure, 59 Law and Contemporary Problems 13 (1996) (for address, see above)

Lanham Act Section 43(a): The Sleeping Giant Is Now Wide Awake by J. Thomas McCarthy, 59 Law and Contemporary Problems 45 (1996) (for address, see above)

Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995 by Robert C. Denicola, 59 Law and Contemporary Problems 75 (1996) (for address, see above)

Dilution Under Section 43(c) of the Lanham Act by Miles J. Alexander and Michael K. Heilbronner, 59 Law and Contemporary Problems 93 (1996) (for address, see above)

"It Keeps Going and Going and Going": The Expansion of False Advertising Litigation Under the Lanham Act

by Bruce P. Keller, 59 Law and Contemporary Problems 131 (1996) (for address, see above)

Remedy Holes and Bottomless Rights: A Critique of the Intent-To-Use System of Trademark Registration by Traci L. Jones, 59 Law and Contemporary Problems 159 (1996) (for address, see above)

Trademark Parody: Lessons from the Copyright Decision in *Campbell v. Acuff-Rose Music, Inc.* by Gary Myers, 59 Law and Contemporary Problems 181 (1996) (for address, see above)

The Intellectual Property Clause in Contemporary Trademark Law: An Appreciation of Two Recent Essays and Some Thoughts About Why We Ought to Care by David L. Lange, 59 Law and Contemporary Problems 213 (1996) (for address, see above) [ELR 19:3:27]