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Taxing Problem for Collegiate Sports is Solved at Last: IRS Rules that Payments for the Right to Lease Suites and Skyboxes for Collegiate Athletic Events May be Tax Deductible Charitable Contributions

by Philip R. Hochberg

The collegiate athletic field - beset by more than its share of economic problems in recent years - finally won one in July 1999.

The Internal Revenue Service on July 14, 1999 ruled - logically enough - that payments to institutions for the right to lease suites or skyboxes should be treated the same as payments for the right to join Priority Seating Plans. It ended some 14 years of

wandering through the Congressional and administrative wilderness of deductibility.

In the 1980's, Congress had agreed that participation in a collegiate Priority Seating Plan (where a special payment might be required for the right to buy seats in a sold-out stadium) should be tax deductible as a charitable contribution. It took until nearly the end of the century to confirm that similar payments to institutions for suite or skybox leases should be treated in the very same fashion.

I. Tax Reform Act of 1986

In May, 1985, President Reagan proposed a raft of fundamental changes in the tax laws of the United States, including limitations on the deductibility of tickets to sporting events generally and for skyboxes at those events. The then-current law permitted a total

business deduction for entertainment expenses, such as tickets to sporting events and the cost of skyboxes, lounges, boxes and other similar arrangements. Under a proposal advanced by the Treasury Department, the law would have been changed and the deduction would no longer have been available at all.

A. Tickets

In the consideration of the Tax Reform Act of 1986, the Joint Committee on Taxation of the Congress prepared a proposal which limited the deduction on tickets to 50%. The ticket deduction eventually was set at 80% in the 1986 Act, but subsequently was reduced to 50% in 1993 (although eventually climbing back up to 80% by 2008).

Certain events were exempted from this limitation when the law was passed in 1986. For

example, section 274(l)(1) of the Internal Revenue Code does not subject to the deductibility limitation any sports event:

(i) which is organized for the primary purpose of benefiting [qualified charitable organizations]...,

(ii) all of the net proceeds of which are contributed to such organization, and

(iii) which utilizes volunteers for substantially all of the work performed in carrying out such event.

This exemption was sought - and obtained - by the PGA and the PGA Tour.

B. Skyboxes and Suites

At the same time Congress was considering limitations on ticket deductibility, it was considering as well the deductibility of skybox and suite leases. And in the 1986 Tax Reform Act, Congress adopted

legislation that limited the business deduction of skybox or suite seating to an amount equal to the value of the cost of the most expensive regular seat generally available in the facility, plus amenities. So, for example, if a ten-seat suite leased for $50,000 for the basketball season and the most expensive regular seat ticket in the facility sold for $100/game for the 15 game season, the amount subject to a business deduction would be $15,000 (plus the value of any added amenities).

Congress nonetheless indicated a willingness to accommodate special industry problems (as it had in ticket deductibility); motor sports in fact sought an exemption. Note that section 274(l)(2) of the Internal Revenue Code covers only "a skybox or other private luxury box leased for more than 1 event" (emphasis added), a provision adopted as a result of an aggressive lobbying campaign by NASCAR. (Indeed, an

additional special "transition rule" also was passed that specifically exempted skyboxes in new Comiskey Park, under construction at that time in the district of then-Ways and Means Chairman Rostenkowski (D-IL.))

II. Collegiate Revenue Rulings

In 1984, the Internal Revenue Service had issued a Revenue Ruling (Rev. Rul. 84-132), which had raised questions about the deductibility of any contribution tied into collegiate ticket purchases. In an effort, however, to "clarify, distinguish, and supercede" this earlier Revenue Ruling, the IRS issued a new Ruling (Rev. Rul. 86-63). The new 1986 Ruling allowed payments made in facilities which were not sold out to be deducted as a charitable contribution.

In fact, what the new Revenue Ruling did was to continue a total disallowance of contributions in sold-

out facilities and raise significant evaluation questions in other facilities. In a non-sold out facility, since a ticket purchaser could buy a seat anyway, any contribution that he made was purely for charitable purposes; if the facility was sold out, however, then the purchaser was getting a benefit and the payment was not made for true charitable purposes, according to the IRS. On its face, the clarification made sense; in practice, it was going to create chaos. Since some games or even some sections of the stadium or arena were going to be sold out for some games, the institution was faced with the need to analyze every purchase for every game and every seat, an administrative nightmare.

At this point then, collegiate sports found itself buffeted by three 1986 actions:

(1) The Tax Reform Act had limited ticket deductibility to 80% of face value;

(2) The Tax Reform Act had limited skybox deductibility to the value of the highest-priced regular tickets in the facility and then subjected them to the 80% deduction; and

(3) Revenue Ruling 86-63 had limited Priority Seating Plans' use of charitable deductions to those cases where facilities were not sold out, the very facilities where Priority Seating Plans were of the least use.

III. Legislation to Reverse Revenue Ruling 86-63

A. 99th Congress

On the very day that the 1986 Revenue Ruling was issued, Sen. David Pryor (D-AR) introduced legislation to roll it back; shortly thereafter, the same bill was offered in the House by Rep. Norman Dicks

(D-WA). And in the course of consideration of the 1986 Tax Reform Act, Sen. Steve Symms (R-ID) drafted a much more comprehensive overturning of the effect of Revenue Ruling 86-63. For various reasons, these bills fell short of being included in the new tax law.

Because they had not passed either body, the bills rolling back Revenue Ruling 86-63 were not a part of the Conference on the Tax Reform Bill between the Senate Finance Committee and the House Ways and Means Committee. But in last minute activity in October 1986, the members of the Conference adopted some 340 changes (called "transition rules"; see Comiskey Park above), allowing for special unique treatment on specific issues to meet requests of specific conferees. And so, Section 1608 of the 1986 Tax Reform Act was adopted granting relief from Revenue Ruling 86-63 for - and only for - Louisiana State

University (for conferee and alumnus Sen. Russell Long (D-LA)) and the University of Texas (for conferee and alumnus Rep. Jake Pickle (D-TX)). Virtually in the dark of night, the measure was passed into law. (In an amusing footnote, the University of Texas was identified only as "an institution founded in 1968 (sic)," rather than 1868 - an technical error in a technical amendment which could have denied the benefits to Texas, notwithstanding Representative Pickle's efforts.)

Then all hell broke loose. Not only did the transition rule not slip by, stories and editorials appeared all over the nation about special treatment for the two universities. And the sponsors had to back down. First, legislation was introduced to specifically overturn Section 1608. Then, Sen. Long agreed to a limitation on the use of the funds received by LSU and Texas; and then both agreed in a Concurrent Resolution

that the special treatment should be stricken from the tax law. But the Concurrent Resolution to make this (and other) changes was never passed and the LSU-Texas amendment stayed in as part of the law.

(As it turned out, the failure to remove the special exemption for LSU and Texas from the law actually benefited the collegiate community, since it guaranteed the issue would come up in the 100th Congress. Cong. Pickle in fact claimed that he had inserted the special treatment for Texas into the law for the very purpose of illustrating the unfairness for all other institutions.)

In the course of debate on overturning Section 1608, the question of skyboxes did arise, but in a bewildering sense. In a confusing colloquy with Sen. Pryor, Sen. Bob Packwood (R-OR), the Ranking Minority Member of the Finance Committee, in interpreting Section 1608, said:

The only schools that were spelled out related to skyboxes, and that was in Louisiana and Texas. Those are stricken out. That does not relate to scholarships. That related to the skyboxes and their coliseums. They were stricken out. Cong. Record, Oct. 16, 1986, at S16322. Looking, therefore, to the legislative history for any specific guidance would turn out to be a fruitless exercise.

B. 100th Congress

On the opening day of the 100th Congress in January 1997, legislation was introduced to repeal Revenue Ruling 86-63. A year-and-a half later, in late October 1988, just before adjourning for the elections, Congress passed and the President signed the Technical Corrections and Miscellaneous Revenue Act of 1988 which included Section 6001, entitled "Treatment of

Certain Amounts Paid to or for the Benefit of an Institution of Higher Education."

The provision amended Section 170 of the Internal Revenue Code and reversed the Revenue Ruling by setting an across-the-board flat 80% deduction when a contribution is tied into a Priority Seating Plan. It was made retroactive to 1983.

Summarizing the section, the Senate Finance Committee said:

Under the provision, if a taxpayer makes a payment to or for a college that would be deductible as a charitable contribution but for the fact that the taxpayer receives (directly or indirectly) the right to purchase seating in the college's athletic stadium, 80 percent of such payment would be treated as a charitable contribution, whether or not tickets would have been readily available to the taxpayer without making the payment.

No amount paid for the actual purchase of tickets would be deductible as a charitable contribution; the provision would not apply if the taxpayer receives tickets or seating (rather than the right to purchase tickets) in return for the payment.

(Emphasis added.) Virtually the same language was reflected in the Report of the House Ways and Means Committee. (The only difference between the two was the effective date.)

C. Skybox and Suite Implications

The Conference Report on the 1988 Technical Corrections Act did say that the 80% deduction applied "whether or not the tickets would have been readily available to the taxpayer without making the payment." This does not differentiate between seats in a suite or

skybox or in the stadium proper. However, given Congress' principal concern with professional sports in 1986 and given the quite specific unavailability of new Section 170(l) (dealing with Priority Seating Plans) to professional sports, it was a reasonable interpretation for college and university athletic programs to create a two-tiered approach for purposes of deductibility.

Which is exactly what happened. And which is exactly what raised the issue to the attention of the Internal Revenue Service in 1999. And which is what brought us to the present day.

IV. Technical Advice Memorandum, July 7, 1999; General Information Letter, July 14, 1999

The Taxpayer, R.L. French Corporation, leased a skybox at Jack Trice Stadium for the 1996 home football games of the Iowa State Cyclones. The

corporation paid $200,000 to the university and assigned $20,520 as the value of the suite license, parking, and additional passes to visit the skybox. Of the remaining $179,480, the French Corporation, based on section 170(l), sought to write off 80% or $143,584 as a charitable contribution. On audit, the revenue agent said, without equivocation, "No!" This was, the Field Office said, an attempt to write off a payment for a suite, apparently telling the Taxpayer that (a) statutory write-offs for suite and skybox use were limited to use for a single event and (b) Priority Seating Plans were just that, not suite or skybox leases.

The French Corporation sought "technical advice" - an appeal - on the specific facts of the case from the National Office.

Contemporaneously, the Division 1-A Athletic Director's Association, an organization composed of the Directors of Athletics of the 112 largest university

engaged in intercollegiate athletics, sought a General Information Letter treating the broader issue. The Division 1-A's urged the Internal Revenue Service to take note not only of the history of the Priority Seating Plan legislation, but of "stadium economics" driving all of sports: If a professional team's "stadium economics" do not compute, the team may threaten to move until its gets a new facility - or in fact move. Colleges do not have that luxury. "Stadium economics" - the ability to succeed with stadium-general revenue - can be seen therefore to be more critical in the collegiate framework. That concern was a key factor in the enactment of Section 170(l).

The Athletic Directors then pointed to the history of the section and a "plain language" interpretation of the statute. "The law," they said

fully supports a charitable deduction of 80% of an amount that represents a payment for the right to purchase tickets in a facility, not for the seating itself.

The only question should be how the payment is to be allocated, if in fact there is a single payment covering by the rights and the tickets themselves.

In a Technical Advice Memorandum (TAM) to the French Corporation on July 7, 1999 and a General Information Letter a week later to the Division 1-A Athletic Directors, the IRS agreed completely. Internal Revenue cited the American Bar Endowment case (U.S. v. American Bar Endowment, 477 U.S. 105, 118 (1986)) which recognized that

A payment to charity might have a dual character and adopted a two-part test to determine whether part of the payment is deductible as a charitable contribution.

First, the payment is deductible only to the extent that the payment exceeds the fair market value of the privileges or benefits received. Second, the taxpayer must make the excess payment with the intention of making a gift.

Internal Revenue further said it did not make any difference where in the stadium the seating was located. In the French TAM, it said:

Section 170(l) is applicable despite the fact that the seating is located in a special viewing area within the athletic stadium. Thus, the portion of [the] Corporation's payment to [the Iowa State charitable] Foundation for the right to buy tickets for seating is considered as paid for the benefit of the University under [section] 170(l)....

(Other sections dealt with the business deduction portions of the write-off.)

Moreover, both the TAM and the General Information Letter treated the question of valuation in the same way. First, 80 percent of the portion attributable to the right to buy the tickets - obviously not the tickets themselves - is the charitable amount. Second, for the purposes of determining that portion, the taxpayer is generally allowed to rely on the allocation made by the donee, unless the taxpayer knows, or has reason to know, that such valuation is unreasonable.

(Of course, even the amount attributable to the tickets and other amenities, while not subject to any charitable deduction may in fact be deductible as a business expense under Section 274 of the Code.)

V. Conclusion

For collegiate sports interests, the TAM and General Information Letter put to rest a vexatious problem. In an era of significant construction of new facilities in the collegiate field, the initial French Corporation decision was one that created troubling uncertainty. As a result of the IRS action, however, depending on the factual circumstances, a lessee might be able to write off (a) 50% of the value of the tickets and (b) 80% of the value above the tickets, making the total write-off to the taxpayer, as in the French case, 77%, rather than 5%. To say this might be an aid in leasing suites and skyboxes is an understatement.

While not providing a bright line test as to exactly how much could be written off by suite or skybox lessees, they did provide more than enough general assurance to mark a major victory for collegiate sports interests.

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RECENT CASES

Dustin Hoffman wins $3 million judgment against Los Angeles Magazine because of its unauthorized publication of computer-generated composite photo of him to illustrate fashion article

Dustin Hoffman has been awarded more than $3 million in a right of publicity lawsuit against Los Angeles Magazine, because it published a photograph of him without his consent. The magazine is published - as federal District Judge Dickran Tevrizian pointedly noted - "in the home town of the motion picture industry"; and many celebrities actively seek publicity in its pages. In this case, though, the offending photograph was not used to illustrate an article about the Academy Award winning actor himself, nor even an article about his latest movie.

Instead, the photo appeared in connection with an article in the March 1997 issue entitled "Grand Illusion" that featured clothing designed by designers who were among Los Angeles Magazine's major advertisers. Indeed, the March 1997 issue included a "shopping guide" that provided store and price information for the fashions depicted in the article.

Hoffman was shown wearing a gown designed by Richard Tyler and shoes by Ralph Lauren. Fans who remember the actor's 1982 movie "Tootsie" will recall that Hoffman did wear women's clothes in it, though not those in which he later appeared in Los Angeles Magazine. The magazine obtained a photograph of Hoffman wearing a gown by Tyler and heels by Lauren by creating a computer-generated composite of the actor's face and head taken from a "Tootsie" photograph superimposed over the body of a model

who had been photographed for the magazine article wearing those clothes.

Los Angeles Magazine had published fashion articles before, featuring photos of Grammy-nominated singers and television comediennes. On those occasions, however, the magazine had obtained the consent of the celebrities who were depicted. For the March 1997 fashion article, the magazine did not even seek Hoffman's permission, nor did it obtain the consent of other movie actors whose photos also were used in that article.

Following a four-day non-jury trial, Judge Tevrizian ruled that Hoffman was entitled to prevail on several theories. The judge concluded that the unauthorized use of Hoffman's computer-generated image violated the actor's California common law and statutory right of publicity; it violated his rights under section 43 of the federal Lanham Act; and it constituted

unfair competition under principles codified in California Business and Professions Code section 17200.

Judge Tevrizian rejected the magazine's argument that Hoffman's claims were preempted by copyright law, because, the judge explained, Hoffman's right to control the use of his own likeness was not equivalent to the rights protected by the copyrights in the two photographs the magazine had used in creating the offending composite.

The judge also rejected the magazine's First Amendment defense. The judge reasoned that "The First Amendment does not protect the exploitative commercial use of Mr. Hoffman's name and likeness." And the "article provided no commentary on fashion trends . . . ." Moreover, the First Amendment does not protect knowingly false speech, and the computer-generated image created by the magazine was false

because Hoffman had never worn the clothes he was shown wearing.

Finally, the judge rejected the magazine's "news" or "public affairs" defense, because he found that the article was "not really a presentation of fashion news or affairs" and because even if it were, "the right of publicity permits the use of a person's likeness only to the limited extent reasonably required to convey the news to the public."

Judge Tevrizian awarded Hoffman $1.5 million in compensatory damages "which represents the fair market value of the right to utilize Mr. Hoffman's name and likeness in the manner in which it was used by Los Angeles Magazine."

The judge also ruled that Hoffman was entitled to punitive damages because the magazine's "unauthorized use of his name and likeness was wilful and was done in conscious disregard of Mr. Hoffman's

rights," and to an award of attorney's fees. According to news reports, the judge later awarded Hoffman an additional $1.5 million in punitive damages and $270,000 in attorney's fees.

Hoffman v. Capital Cities/ABC, Inc., 33 F.Supp.2d 867, 1999 U.S.Dist.LEXIS 506 (C.D.Cal. 1999)[ELR 21:3:8]

Walt Disney and Michael Ovitz defeat shareholder derivative suit complaining about Ovitz's multi-million dollar severance package

Michael Ovitz was once the head of Creative Artists Agency. While in that position, he was considered by many to be the "Most Powerful Man in Hollywood." Then he did two things that shocked

Hollywood and Wall Street. He left CAA to take a job as the President of The Walt Disney Company, and 14 months later, he left that job and The Walt Disney Company entirely.

Ovitz's departure from Disney would have been newsworthy, even if he had been entitled to no severance pay whatsoever. As soon as Disney announced his departure, however, it was speculated that his severance package might be worth as much as $90 million, and that ignited a firestorm of controversy (ELR 18:7:3). Ovitz's severance package also sparked a shareholders' derivative lawsuit against Disney, including a breach of contract claim against Ovitz himself (ELR 18:9:8).

In that lawsuit, the complaining shareholders alleged that several members of Disney's board of directors had breached their fiduciary duties to the company, first by entering into an employment

agreement with Ovitz that contained such generous termination provisions, and then by terminating Ovitz without cause so he could collect the severance promised him by the contract. The complaining shareholders also alleged that Disney's directors had wasted company assets by terminating Ovitz in a way that entitled him to severance benefits. And the shareholders sued Ovitz himself, alleging that he had breached the very employment agreement he then relied on to obtain those benefits.

Generous severance packages are not unusual in corporate America, not even in the entertainment business. According to the Wall Street Journal (12/16/96), Viacom paid Frank Biondi $25 million, Sony paid Michael Schulhof $20 to $40 million, and Time-Warner paid Michael Fuchs $20 million, Douglas Morris $30 million and Robert Morado $40 million, when those executives departed.

What was unusual about Ovitz's severance from Disney, and the subsequent shareholder lawsuit, was the sheer size of Ovitz's package. Indeed, by the time the case was decided, the value of Disney stock had increased so significantly that the stock options that were part of that package had boosted the value of Ovitz's severance to $140 million! Delaware Chancery Court Judge William Chandler couldn't help noting that Ovitz's package was "larger than almost anyone anywhere will receive . . . and perhaps larger than any ever paid." The judge was quick to point out, however, that the size of the severance package did not affect the legal principles he would apply to the case.

"Just as the 85,000-ton ships Disney Magic and Disney Wonder are forced by science to obey the same laws of buoyancy as Disneyland's significantly smaller Jungle Cruise ships, so is a corporate board's extraordinary decision to award a $140 million

severance package governed by the same corporate law principles as its everyday decision to authorize a loan," Judge Chandler said. Warming to his task, the judge continued: "When the laws of buoyancy are followed, the Disney Magic can stay afloat as well as the Jungle Cruise vessels. When the Delaware General Corporation Law is followed, a large severance package is just as valid as an authorization to borrow. Nature does not sink a ship merely because of its size, and neither do courts overrule a board's decision to approve and later honor a severance package, merely because of its size."

It took Judge Chandler 78 typewritten pages to meticulously explain why, but in the end he did not overrule the Disney board's decision to approve and later honor Ovitz's employment contract. Nor did he countenance the breach of contract claim against Ovitz

himself. When all was said and done, Judge Chandler dismissed the shareholders' entire case.

The shareholders' fiduciary duty and corporate waste claims against Disney's directors floundered on what appear at first to be procedural grounds. Under Delaware corporate law, shareholders usually must make a demand on company directors before shareholders file derivative lawsuits. In this case, Disney's complaining shareholders had not made such a demand. However, the shareholders argued that they were not required to do so, because of an exception to the demand requirement created by the Delaware Supreme Court fifteen years before. That exception provides that shareholders do not have to make a demand on company directors, if the shareholders' complaint creates doubt about whether the directors are disinterested and independent, or creates doubt about

whether the challenged transaction was the result of the directors' careful business judgment.

Judge Chandler therefore scrutinized the shareholders' complaint and found that it had not raised a doubt about the disinterested and independent nature of Disney's directors. That is, the judge found that even if the shareholders were able to prove their allegations, they would not have shown that the decision of Disney's directors to approve and then honor Ovitz's contract was anything but a disinterested and independent decision.

Judge Chandler also found that even if the allegations of the shareholders' complaint were true, the directors had been "reasonably informed," when they approved Ovitz's contract, about the potential cost to Disney if they later decided to terminate him under circumstances that would entitle him to severance.

Likewise, the judge found that the shareholders had not raised a doubt about whether the directors' decision to honor the severance provisions of Ovitz's contract was the result of their exercise of business judgment. Judge Chandler explained that the board could have terminated Ovitz "for good cause" and thus denied him severance benefits, but that would have "exposed Disney to the risk and expense of a protracted court battle." Alternatively, the board could have sued Ovitz for breach of contract, but "This, too, could have exposed Disney to various risks, including the nuisance of having to defend a countersuit brought by Ovitz."

The board also could have paid Ovitz his severance benefits, and that is what the board decided to do. The shareholders "may disagree with the Board's judgment as to how this matter should have been handled," the judge said. But, he added, "This will not suffice to create a reasonable doubt that the Board's

decision . . . was the product of an exercise of business judgment."

Since the shareholders had not made a pre-lawsuit demand on Disney's directors, Delaware law did not permit them to file their fiduciary duty and corporate waste claims; and Judge Chandler dismissed those claims for that reason.

Judge Chandler also dismissed the shareholders' breach of contract claim against Ovitz. The judge did so, because this claim too required a pre-suit demand on Disney's directors - a demand that the shareholders had not made.

In re The Walt Disney Company Derivative Litigation, 1998 Del.Ch.LEXIS 186, 1998 WL 731587 (Del.Ch. 1998)[ELR 21:3:9]

Dairy Queen company wins preliminary injunction barring New Line from using "Dairy Queens" as title for movie satirizing beauty contests

Earlier this summer, New Line Cinema released a movie that portrays "a small town's obsession with its teenage beauty contest." The movie stars Kirstie Alley, Ellen Barkin, Kirsten Dunst and Denise Richards and is entitled "Drop Dead Gorgeous."

"Drop Dead Gorgeous" was not New Line's first choice for a title. Originally, the movie was to have been called "Dairy Queens," apparently because it is set in the dairyland area of rural Minnesota. But American Dairy Queen Corporation objected to that title. American Dairy Queen does business through thousands of "family-oriented" outlets, selling frozen dairy treats and other food under the "Dairy Queen" trademark.

The company's objection to New Line's proposed title is perhaps understandable, because New Line itself describes the movie as "an unwholesome portrait of Americana." The movie satirizes beauty contests, and portrays them as backbiting and jealous affairs whose participants suffer from eating disorders. Worse yet, from American Dairy Queen's point of view, New Line acknowledged that a portion of the movie contains "off-color humor and content which may offend many . . . viewers." American Dairy Queen was "particularly concerned that the title 'Dairy Queen' [would] cause the public to associate its trademarked name with the unwholesome content of the film."

American Dairy Queen expressed its objections to New Line's "Dairy Queens" title in a trademark infringement and dilution lawsuit in federal District Court in Minnesota. The reason that New Line released the movie as "Drop Dead Gorgeous" is that Judge

James Rosenbaum granted American Dairy Queen's request for a preliminary injunction, barring New Line from using the "Dairy Queen" title.

The judge found that American Dairy Queen's mark is strong, and that New Line's proposed title was similar. The judge did agree with New Line that it and American Dairy Queen do not compete with one another, and that there was no evidence New Line had chosen the title with an intent to trade on American Dairy Queen's goodwill. But on balance, Judge Rosenbaum concluded that American Dairy Queen was likely to prevail on its trademark infringement claim, because it was "probable that consumers would be confused as to the source of a film called 'Dairy Queens,' or would, at least, conclude that New Line had received the endorsement or permission of [American Dairy Queen] for use of its mark."

The judge also found that American Dairy Queen was likely to prevail on its dilution claim, because "Dairy Queen" is a famous mark that could be "tarnished" by the movie's "offensive portions" or even by its offensive advertising materials. While the Dilution Act exempts "noncommercial" uses, the judge ruled that the "Dairy Queens" title would not be used by New Line as part of an expressive work, but instead would be used to market the movie, thus making the Dilution Act applicable to the movie's title.

Finally, Judge Rosenbaum rejected New Line's First Amendment defense. He did so, because he found that other titles were available - such as "Dairy Princesses" or "Milk Maids" - so that an injunction would cause "only . . . a minute restriction on expression, but will do much to avoid confusion and dilution."

American Dairy Queen Corp. v. New Line Productions, Inc., 35 F.Supp.2d 727, 1998 U.S.Dist.LEXIS 20472 (D.Minn. 1998)[ELR 21:3:10]

In trademark case won by owners of "Bridge on the River Kwai," losing producers are ordered to post $50,000 bond in connection with appeal from injunction barring their use of movie title "Return from the River Kwai"

Columbia Pictures and Academy Pictures have won yet another round in their battle to protect the title to their 1956 Ocar-winning motion picture "Bridge on the River Kwai." Their adversaries in this long-pending lawsuit are Kurt Unger and Leisure Time Productions, the producers of a movie they chose to call "Return

from the River Kwai" even though it is not a sequel, let alone an authorized one (ELR 20:9:4).

In an earlier ruling, Judge David Edelstein found that the title "Return from the River Kwai" violates Columbia and Academy Pictures' trademark rights, and he enjoined Unger and Leisure Time from using that title or any other that is confusing similar.

Unger and Leisure Time appealed from Judge Edelstein's ruling, as they have the right to do. But in connection with that appeal, Columbia and Academy have certain rights too, including the right to ask Judge Edelstein to require Unger and Leisure Time to post a bond that would ensure payment of Columbia and Academy's costs on appeal, in the event the injunction is affirmed.

Judge Edelstein has granted Columbia and Academy's request and has ordered Unger and Leisure Time to file a $50,000 bond.

The judge noted that Unger and Leisure Time are not United States citizens, and have not shown that they have the financial resources to cover Columbia and Academy's costs on appeal. Moreover, the judge concluded that Unger and Leisure Time had acted in bad faith in choosing the title of their movie, and that it is unlikely they will prevail on appeal - both factors that supported Columbia and Academy's request for a bond.

Unger and Leisure Time argued that requiring them to post a bond as a condition to pursuing their appeal would deny them due process. But Judge Edelstein concluded that this argument was "unfounded," because the right to appeal is "not absolute" and may be limited.

Tri-Star Pictures, Inc. v. Unger, 32 F.Supp.2d 144, 1999 U.S.Dist.LEXIS 20 (S.D.N.Y. 1999)[ELR 21:3:11]

William Morrow is enjoined from publishing unauthorized "Godzilla" book that would have contained photos from or concerning "Godzilla" movies

William Morrow and Company had a good idea, or so it must have seemed at the time. It planned to publish a 227-page compendium book entitled "Godzilla!" just weeks before Tri-Star Pictures was to release its big-budget, similarly titled movie. Indeed, so good an idea was this that Random House too planned to publish such a book, to be titled "The Official Godzilla Compendium."

Random House, however, did one thing Morrow had not: it obtained a license from Toho Co., Ltd., the Japanese company that created the Godzilla character back in 1954. Godzilla has produced or licensed others to produce a series of Godzilla movies during the ensuing years, including Tri-Star's most recent epic.

When Toho learned of Morrow's plans, it sued the publisher in federal District Court in Los Angeles, alleging that Morrow's unauthorized tome would be substantially similar to Random House's authorized book and thus would infringe Toho's registered trademark and copyrights. Judge Dickran Tevrizian agreed there was a probability that Toho would succeed with its claims, and he granted Toho's request for a preliminary injunction barring Morrow from proceeding with its "Godzilla!" book publishing plans.

The judge rejected Morrow's "nominative fair use defense" to Toho's trademark claim. That defense

permits the unauthorized use of "only so much of the mark . . . as is reasonably necessary to identify the product or service." In this case, the judge found, "Morrow's use exceeds its legitimate reference purpose."

The judge also rejected Morrow's First Amendment defense. Some courts have recognized a First Amendment interest in being able to choose an appropriate title for a book, movie or other work, if the desired title has some artistic relevance to that work. Judge Tevrizian acknowledged that Morrow's chosen title "does indeed have some artistic relevance" to its book. But even cases that have recognized the First Amendment interest asserted by Morrow have said that trademark rights will prevail if the offending title "unreasonably creates confusion as to the source of the work." The judge found "the likelihood of confusion in

this action is strong, and therefore Morrow's First Amendment defense is unavailing."

Morrow had hoped to avoid trademark liability by printing disclaimers on the front and back covers of its book. But the front cover disclaimer was merely the word "UNAUTHORIZED" printed "in relatively small lettering." The back cover disclaimer was more substantial. But Judge Tevrizian found that the disclaimers were inadequate to avoid the potential for consumer confusion. The front cover would not necessarily have alerted consumers that the book was not sponsored or endorsed by Toho; and consumers would not necessarily have seen the back cover before they bought the book.

Toho's copyright claim also was likely to succeed, the judge concluded. He ruled that the Godzilla character has "developed a constant set of traits that distinguish him/her/it from other fictional

characters," and thus is protected by copyright apart from any film.

Morrow contended that the photos in its books were publicity stills and the like that had been published before 1989 without the then-required copyright notice. But the judge agreed with Toho that the Copyright Restoration Act had automatically restored any of those copyrights that might have fallen into the public domain.

Finally, the judge rejected Morrow's argument that its book was a fair use, and thus not an infringement, of Toho's copyrights.

Toho Co., Ltd. V. William Morrow and Co., Inc., 33 F.Supp.2d 1206, 1998 U.S.Dist.LEXIS 12337 (C.D.Cal. 1998)[ELR 21:3:11]

Company that provides costumed characters for parties and promotional events is enjoined from using costumes similar to cartoon character "Arthur"

Marc Brown is the creator of the cartoon character "Arthur." Parents of young children are quite familiar with "Arthur." According to Brown, his creation has been the subject of more than sixty best-selling books; the "Arthur" television series garners higher ratings than "Sesame Street" or "Barney"; "Arthur" graced the covers of a 1998 "TV Guide" and that year's FAO Schwartz holiday cover; and an "Arthur" balloon led the 1997 Macy's Thanksgiving Day Parade.

"Arthur" does not appear everywhere, however. With a few exceptions for charitable and promotion purposes, Brown has not licensed adult costume

versions of "Arthur," because it would be difficult to control performers to be certain that "Arthur's" character remained "appropriate for children."

Brown was thus understandably distressed to discover that a New York company known as It's Entertainment, Inc., appeared to have used an unlicensed "Arthur" costume for a toy store opening on Long Island in September 1998. Brown immediately fired off a cease and desist letter, the response to which was not entirely satisfying. It's Entertainment replied that it had not rented an "Arthur" costume, but instead had "subcontracted" the performer about which Brown had complained. When the company refused to provide Brown with any further information about the performer, Brown sued.

Federal District Judge Arthur Spatt has granted Brown's motion for a preliminary injunction (a motion not opposed by It's Entertainment). The judge ruled that

even if It's Entertainment had not itself made the offending costume, a "serious question" was presented concerning whether the company knew that its "subcontracted" performer would wear an "Arthur" costume. If it did know, It's Entertainment could be liable for contributory copyright infringement. The judge also found that the company could be liable for contributory trademark infringement, if it supplied the performer despite knowing that the performer would wear an "Arthur" costume.

Brown also established a likelihood of prevailing on his famous mark dilution claim, Judge Spatt concluded. This was so, the judge explained, because "Should unauthorized Arthur impersonators proliferate, espousing a multitude of causes, some potentially unwholesome, the image sought by [Brown] for Arthur will be difficult to control and might easily become

blurred or tarnished, resulting in a loss of credibility, public affection, and consumer interest."

Brown v. It's Entertainment, Inc., 34 F.Supp.2d 854, 1999 U.S.Dist.LEXIS 1340 (E.D.N.Y. 1999)[ELR 21:3:12]

Release of "The Little Shop of Horrors" in 1960 published underlying screenplay, as well as movie itself, so failure to renew movie's copyright in 1988 put screenplay in public domain, federal Court of Appeals rules

To the undoubted horror of its owner, the copyright to "The Little Shop of Horrors" was not renewed in 1988, as it should have been, 28 years after the movie's initial release in 1960. This oversight put

the movie itself in the public domain, and did another - now precedent-setting - thing as well. It called into question the continuing enforceability of the royalty provisions of a 1983 agreement by which Alan Menken and Howard Ashman acquired the right to produce a musical stage play based on the movie and on its underlying screenplay.

Menken and Ashman's successor, Shoptalk, Ltd., contended that their contractual obligation to pay royalties expired when the movie went into the public domain. Concorde-New Horizons was by then the owner of the movie and a co-owner of the screenplay, and it contended otherwise, on two grounds. It claimed that the royalty provisions of the stage play contract survived the expiration of the movie's copyright. And it contended that even though the movie had gone into the public domain, the screenplay had not; and thus

Menken and Shoptalk had to continue paying royalties for that reason.

A lot of money was at stake, so not surprisingly, this disagreement wound up in court, where each side got a partial victory, at first. Federal District Judge Deborah Batts agreed with Menken and Shoptalk that their contractual obligation to pay royalties, based on their use of the movie, expired when the movie's copyright did. But she agreed with Concorde that the screenplay had not been published by the release of the movie, and thus the screenplay had not gone into the public domain (ELR 17:12:4). As a result of the second of these rulings, Shoptalk was ordered to pay Concorde $75,593 in back royalties, and Menken was ordered to pay $56,844.

Both sides appealed. In an opinion by Judge Amalya Kearse, the Second Circuit Court of Appeals has reversed the judgment against Shoptalk and

Menken, and has given them much - though still not quite all - of the ruling they originally sought.

Judge Kearse ruled, first, that Menken and Shoptalk's contractual obligation to pay royalties for their musical's use of the movie expired along with the movie's copyright. A 1955 New York state court decision had held that an "agreement may not . . . in the absence of express language . . . be construed to require payment of royalties after the expiration of the underlying copyrights." And Judge Kearse found "no such express contractual language in this case."

Judge Kearse then ruled that the 1960 release of "The Little Shop of Horrors" did publish the screenplay - at least so much of the screenplay as actually appeared in the movie - and thus when the movie's copyright was not renewed, the screenplay's copyright expired along with the movie's. In so ruling, the judge cited with approval a similar, recent ruling by the Ninth

Circuit Court of Appeals which held that the screenplay for the John Wayne movie "McLintock!" went into the public domain, along with the movie itself, when that movie's copyright was not renewed (ELR 20:11:10).

As a result, Menken and Shoptalk may not have to pay back royalties after all, though the case is not entirely over yet. Judge Kearse recognized that the musical stage play might have incorporated portions of the screenplay that had not appeared in the movie. Portions of the screenplay that were not in the movie would not have been published by the movie; and thus the copyright to those portions would not have expired. Thus, the case has been remanded for further proceedings so the District Court can determine whether there were any unpublished portions of the screenplay that found their way into the musical.

Concorde's petition for certiorari has been denied by the United States Supreme Court.

Shoptalk, Ltd. v. Concorde-New Horizons Corp., 168 F.3d 586, 1999 U.S.App.LEXIS 1416 (2d Cir. 1999), cert. den., 119 S.Ct. 2399, 1999 U.S.LEXIS 4476 (1999)[ELR 21:3:12]

Pre-1978 distribution of recordings did not publish songs, even in cases already pending when Congress amended Copyright Act to so provide, federal appeals court rules in infringement suit involving Hoyle Nix's 1940s song "A Big Ball in Cow Town"

Few readers of the Entertainment Law Reporter are likely to remember the song "A Big Ball in Cow Town." It was written by Hoyle Nix back in the 1940s and was recorded by him in 1949 and 1958. The song is significant, however, because it has become the subject

of a copyright infringement suit that raised an interesting issue. Does a new statute that deals with the legal consequences of past acts apply to lawsuits that are pending on the date the statute is enacted? The answer, according to a federal Court of Appeals, is "yes" - at least with respect to a 1997 amendment to the Copyright Act that says that the pre-1972 distribution of a recording does not publish the songs recorded on it "for any purpose."

The current owner of the copyright to "A Big Ball in Cow Town" is music publisher Aubrey Mayhew. He alleges that Konawa Music Publishing infringed that copyright, apparently by publishing a substantially similar song.

Among other defenses, Konawa contended that the copyright to "A Big Ball in Cow Town" is invalid, because the song was published without the then-necessary copyright notice when it was released as a

recording in 1949 and 1958. This very argument had been successful in an earlier famous case, La Cienega Music v. ZZ Top (ELR 16:10:13); and it was successful again, at first, in this case. A federal District Court dismissed Mayhew's lawsuit on those very grounds, shortly before Congress amended the Copyright Act to legislatively overrule the La Cienega decision (ELR 19:7:4).

Congress then amended the Copyright Act to add a new section 303(b) which provides that the pre-1978 distribution of a recording does not publish the songs recorded on it. Relying on that amendment, Mayhew made a motion to alter or amend the judgment dismissing his case; but the District Court denied his motion.

Mayhew has done better on appeal. In an opinion by Judge Karen Moore, the appellate court has ruled that Mayhew's motion should have been granted. "It is

clear . . . that [section] 303(b) should be applied to pending cases," Judge Moore ruled. The language of section itself so indicates, the judge explained. The law presumes that new statutes should not be given retroactive effect, because of "a hesitancy to reverse settled expectation." In this case, though, "Congress has resolved a problem of unsettled expectations that had arisen from the circuit split [between the Ninth Circuit's La Cienega Music opinion and the Second Circuit's earlier Rosette v. Rainbo Record decision]."

Since section 303(b) means that Nix's distribution of recordings in 1949 and 1958 did not constitute a publication of "A Big Ball in Cow Town," the District Court should not have dismissed Mayhew's case on that ground. So the appellate court reversed the dismissal and remanded for further proceedings, in which Konawa's other defenses will be litigated.

Mayhew v. Allsup, 166 F.3d 821, 1999 U.S.App.LEXIS 946 (6th Cir. 1999)[ELR 21:3:13]

Supreme Court rules that federal law may not prohibit radio or television advertising for casino gambling by stations located in states where such gambling is legal

The United States Supreme Court has given radio and television stations in Louisiana the victory they have long pursued - and with that victory, the right to broadcast commercials for private gambling casinos located in their state.

Though casino gambling is legal in Louisiana, and in some 20 other states as well, federal law has long prohibited all broadcasters from carrying casino commercials. The constitutionality of that statute was

attacked by broadcasters in three separate lawsuits, one in filed in Nevada, another in New Jersey, and the third in Louisiana. Federal courts in Nevada and New Jersey declared the statute unconstitutional (ELR 15:12:24, 19:9:14, 19:11:16, 20:3:12). But federal courts in Louisiana repeatedly upheld the statute's constitutionality (ELR 16:11:21, 18:1:10, 20:7:22).

Although casino gambling is legal in Louisiana and in neighboring Mississippi, it is not permitted in Texas or Arkansas where broadcasts by Louisiana stations also can be seen and heard. As recently as 1993, the Supreme Court had upheld that constitutionality of a ban on lottery advertising by broadcasters located in states where lotteries are not authorized (ELR 15:6:7). And that ruling may have encouraged the federal government to argue that broadcasters could be banned from transmitting casino gambling commercials into states that have no casinos.

However, in an opinion by Justice John Paul Stevens, the Supreme Court ruled otherwise. It ruled that as applied to broadcasters located in states where casino gambling is permitted, the casino advertising ban fails to satisfy First Amendment standards, for several reasons.

First, while it was "fair to assume" that the ban would have "some impact on overall demand for gambling, it is also reasonable to assume that much of that advertising would merely channel gamblers to one casino rather than another."

Second, and "even more important," federal law permits broadcast advertising for casinos operated by Indian tribes; and the government failed to show that compulsive gambling - which the government hoped would be reduced by its advertising ban - was connected to broadcast advertising for casino gambling "let alone broadcast advertising for non-Indian

commercial casinos." Justice Stevens acknowledged a "special federal interest in protecting the welfare of Native Americans." But, he added, "It does not follow" that this interest justifies "abridging non-Indians' freedom of speech more severely than the freedom of their tribal competitors."

Indeed, the exemption permitting broadcast advertising for Indian casinos is only one of several exemptions that permit broadcast advertising for various forms of gambling. This led Justice Stevens to conclude that the statute "is so pierced by exemptions and inconsistencies that the Government cannot hope to exonerate it."

Greater New Orleans Broadcasting v. United States, 119 S.Ct. 1923, 1999 U.S.LEXIS 4010 (1999)[ELR 21:3:14]

BBC defeats most claims asserted by MPI Home Video complaining that cease and desist letters sent by BBC prevented MPI from releasing video of Princess Diana's funeral

An estimated 2.5 billion people worldwide watched the live broadcast of Princess Diana's funeral. Countless more watched broadcaster-produced taped replays or even made their own. Nonetheless, MPI Home Video thought it could sell homevideos of the funeral, and it made a deal with ABC to use the network's footage for that purpose.

However, ABC's own cameras were not in Westminster Abbey where the most memorable segments of the funeral took place, including the eulogy delivered by Diana's brother, Earl Spencer, and Elton John's tribute, "A Candle in the Wind." Instead,

only two British broadcasters were permitted inside Westminster Abbey, the BBC and ITN.

ABC got its footage - and a license to broadcast it - from the BBC. ABC made its homevideo deal with MPI in the mistaken belief that its arrangement with the BBC authorized ABC to grant MPI those rights. ABC learned of its mistake when it received a cease and desist letter from the BBC, one of fifty such letters the BBC sent to news organizations, broadcasters and others.

In those letters, the BBC asserted that it owned the copyright to its funeral footage and that "the unauthorized reproduction, or any other use of [that footage], in whole or in part, constitutes an infringement of BBC's exclusive rights therein."

MPI's plans to sell funeral homevideos were killed by the BBC's cease and desist letters, and MPI responded. It did so by suing BBC for interfering with

prospective economic advantage, misrepresentations in violation of the Lanham Act, and for violations of Illinois law prohibiting deceptive business practices and unfair competition.

In response to cross motions for summary judgment, federal District Judge David Coar has dismissed most of MPI's claims. A significant and quite interesting dispute exists between the parties over whether the BBC does own the copyright it claims. But the ultimate outcome of that dispute did not have to determined, in order for Judge Coar to decide MPI's tortious interference claim.

Rather, the BBC argued that it had a privilege to send the offending cease and desist letters. The judge agreed, because the "BBC's good faith belief in its copyright interest is sufficient to establish privilege." The evidence established that the BBC had a good faith belief, the judge concluded, because it had a copyright

registration certificate, because its contract with Westminster Abbey expressly gave the BBC the copyright in its funeral footage, and because the BBC had asserted its copyright ownership before it learned of the homevideo deal between MPI and ABC.

While the BBC's privilege might have been defeated by evidence that it had acted in bad faith, Judge Coar found that no evidence of its bad faith had been offered. "BBC's cease and desist letters appear entirely consistent with its efforts to prevent the unauthorized use of the funeral footage," the judge observed.

Judge Coar also dismissed MPI's state law claims. The Illinois Consumer Fraud and Deceptive Business Practices Act was designed to protect consumers. However, MPI failed to show any connection between the BBC's cease and desist letters and consumer protection. Also, because the BBC's

letters were sent in a "good faith effort to protect its copyright," MPI's unfair competition claim "cannot survive summary judgment."

MPI did somewhat better with its Lanham Act claim. According to MPI, the BBC's letters overstated the scope of its exclusive rights in a "false and misleading" way, in violation of section 43(a) of the Lanham Act. Judge Coar acknowledged that "a copyright registration is presumptively valid," but, he added, "false claims of exclusivity, such as exaggerating the scope of a copyright, are actionable under the Lanham Act." Because another company may have had the right to license the BBC funeral footage, there was a factual dispute concerning "whether the BCC exaggerated the scope of its copyright in the cease and desist letters." And because ABC cancelled its homevideo deal with MPI because of the BBC's assertion of copyright, the judge denied the BBC's

motion for summary judgment on the Lanham Act claim.

American Broadcasting Co. v. Maljack Productions, Inc., 34 F.Supp.2d 665, 1998 U.S.Dist.LEXIS 19547 (N.D.Ill. 1998)[ELR 21:3:15]

Dismissal of libel claim against Fox Television is affirmed, because plaintiff was convicted of rape and attempted bribery as earlier reported on "America's Most Wanted" and "A Current Affair" and thus reports were not false

Fox Television has defeated a libel lawsuit brought against it by Mohamed F. Ali, a physician who once practiced medicine in Johnson City, Tennessee. In 1989, one of Ali's patients said he had raped her and

then attempted to bribe her to have the rape indictment against him dropped.

Before his trial, Ali left the United States. A 1992 episode of "America's Most Wanted" reported the rape and bribery charges, as well as the fact that Ali's whereabouts were then unknown. A viewer told authorities he had seen Ali in Egypt, and a subsequent investigation by Ali's bail bondsman led to Ali's return to the United States. Fox then broadcast follow-up reports on "America's Most Wanted" and "A Current Affair."

Eventually, Ali was tried and convicted on the rape and bribery charges. But several months later, he nevertheless sued Fox in Tennessee state court for libel and for violating his constitutional rights. Fox's motion for summary judgment was granted on the grounds that both claims were barred by the statute of limitations

and on the grounds that Ali could not prove the necessary facts to succeed with either.

Ali appealed, but Fox has won again. Writing for the Tennessee Court of Appeals, Presiding Judge Frank Crawford has ruled that the statute of limitations on both of Ali's claims was one year, and more than a year had passed between the most recent "America's Most Wanted" broadcast and the date Ali sued Fox. In addition, Judge Crawford agreed with Fox that the network is not a state actor, and thus Ali's constitutional rights claim could not succeed in any event.

Ali argued that he had filed his suit within one year of the "Current Affair" broadcast. Even if that were so, Judge Crawford said, Ali's libel claim was properly dismissed, because his conviction on the rape and attempted bribery charges meant that the offending broadcasts were conclusively deemed to be true. The judge rejected Ali's argument that the broadcasts took

place before his conviction. "The fact that Fox depicted Ali as a rapist and an attempted briber before a jury actually convicted Ali is irrelevant to the issue of whether the depictions were, in fact, true," the judge said. "The depictions made by Fox of Ali's actions were true at the time the episodes aired."

Ali v. Moore, 984 S.W.2d 224, 1998 Tenn.App.LEXIS 398 (Tenn.App. 1998)[ELR 21:3:15]

Woody Harrelson ordered to pay $80,000 in attorneys' fees to photographers, in case arising from "tussle" in Martha's Vineyard, even though jury had awarded the photographers only $2,559 in actual damages

Actor Woody Harrelson could have claimed a "moral" victory in the lawsuit filed against him by two photographers - until the attorneys' fees phase of the case was concluded. In 1995, Steve Connolly and Paul Adao caught Harrelson on film and video at the airport on Martha's Vineyard. A "tussle" ensued, during which the actor damaged Connolly's camera, "appropriated" his film, and struck Adao's video camera.

Connolly and Adao sued Harrelson for assault and battery and for damages under the Massachusetts Civil Rights Act. The trial court directed a verdict in the photographers' favor on liability and allowed the jury to determine damages. The jury awarded Connolly only $2,558 and Adao just $1. At that point, Harrelson was arguably the victor, because Connolly and Adao had incurred almost $80,000 in attorneys' fees and costs in order to get that modest verdict.

However, under the Massachusetts Civil Rights Act, Connolly and Adao were entitled to seek attorneys' fees, as the successful parties. They of course did, and federal District Judge William Young has awarded them most of the $97,734 they sought.

Judge Young rejected Harrelson's argument that the photographers shouldn't be awarded any fees at all, because the jury's verdict was so "nominal." Even Adao, who was awarded just $1, was nevertheless the "prevailing" party, for the purpose of the fee-shifting provision of the Civil Rights Act, the judge concluded.

On the other hand, the judge denied the photographers' request for enhanced legal fees. And thus Judge Young ordered Harrelson to pay the photographers $79,949.41 in fees and costs, in addition to the $2,559 in damages awarded by the jury.

Connolly v. Harrelson, 33 F.Supp.2d 92, 1999 U.S.Dist.LEXIS 996 (D.Mass. 1999)[ELR 21:3:16]

Cast insurance issued by Fireman's Fund to CBS was not "disability insurance," so CBS claim for interruption in production of "Dr. Quinn, Medicine Woman," resulting from Jane Seymour's illness, was subject to policy's one-year limitation period rather than statutory three-year period for disability insurance

The difference between "disability insurance" and "miscellaneous insurance," and the question of whether "cast insurance" is one or the other, may seem ephemeral. But it can have serious consequences, and has, in a case brought by CBS against Fireman's Fund Insurance Company.

Fireman's Fund sold "cast insurance" to CBS, covering the network against extra production costs it might incur in producing "Dr. Quinn, Medicine Woman" (and other series), if a cast member were unable to work because of illness. In October 1993, lead actress Jane Seymour missed work due to illness, and CBS made a claim under the policy. For reasons no longer relevant, Fireman's Fund rejected the claim. This prompted CBS to file suit - in January 1996 - more than two years, but less than three years, after it incurred the loss it claimed was insured.

The California Insurance Code gives an insured three years to file a lawsuit to recover benefits under disability insurance policies. That was the provision relied on by CBS when Fireman's Fund argued that the network's suit was filed too late. The Fund's argument was based on a provision of the cast insurance policy that required suits to be filed within one year of a loss.

The one-year limitation provision in the Fireman's Fund policy would have been invalid, if cast insurance were "disability insurance," as that term is defined in the California Insurance Code. But a California trial court agreed with Fireman's Fund that cast insurance is not disability insurance, and the court granted the insurance company's motion for summary judgment. An appellate court has now affirmed.

In an opinion by Justice Norman Epstein, the California Court of Appeal has noted that the California Insurance Code distinguishes between "disability insurance" and "miscellaneous insurance." Moreover, the statutory definition of "miscellaneous insurance" specifically includes policies issued to movie and television producers for losses resulting from production delays resulting from sicknesses that prevent performers from working. Thus, since cast insurance is "miscellaneous" rather than "disability"

insurance, the three-year statute of limitations applicable to disability insurance did not apply to CBS's lawsuit.

Justice Epstein also rejected CBS's other attacks on the insurance policy's one-year limitations provision. He ruled that the one-year provision is not against public policy; that Fireman's Fund had not waived the one-year period; that the one-year provision was clearly set out; and that it did not breach the implied covenant of good faith and fair dealing.

CBS Broadcasting Inc. v. Fireman's Fund Insurance Company, 83 Cal.Rptr.2d 197, 1999 Cal.App.LEXIS 222 (Cal.App. 1999)[ELR 21:3:16]

New York City regulations on use of amplifiers in public places are constitutional, federal appellate court rules in case brought by street musician

Street musician Robert Turley has suffered a setback in his legal effort to defeat New York City regulations that control the use of amplifiers in public places. These regulations have been a significant irritant to Turley, because he plays an electric treble bass guitar which cannot be heard without an amplifier.

The regulations in question prohibit the use of amplifiers without a permit, require the payment of a fee to obtain a permit, and allow the police to confiscate amplifiers belonging to those who use them without a permit or use them louder than their permits allow. Turley sued New York City, arguing that the regulations violate his free speech and equal protection rights.

Turley was not entirely successful with his case. In pre-trial rulings, District Judge Allen Schwartz rejected Turley's equal protection argument, as well as his contention that City officials are given unconstitutional discretion to decide how loud amplifiers could be, and his assertion that confiscation of amplifiers violates the first amendment.

On the other hand, following two trials conducted by Judge Shira Scheindlin, Turley prevailed on two of his remaining claims. He persuaded a jury that the City's decibel limit for amplified music was too low. And he persuaded Judge Scheindlin that the City's permit fee was excessive.

Neither Turley nor the City was entirely pleased with these results, and both appealed. Writing for the Court of Appeals, Judge John Walker has ruled almost entirely in the City's favor.

He reversed Judge Scheindlin's ruling that the permit fee was excessive, because he said she should not have ruled on that issue in the first place. At the first trial, the jury found that the City's original $29 a day fee was excessive, but its subsequent $45 a day fee was not. Judge Scheindlin thought this verdict was potentially inconsistent and granted Turley's request for a new trial for that reason. Judge Walker reasoned that the jury's verdict was not as inconsistent as it may have appeared at first, because the original fee was $29 per day even if the permit was for several days. The subsequent fee was $45 for the first day, and $5 per day thereafter; so the subsequent fee would actually be less expensive for musicians who sought several-day permits. So viewed, the jury's verdict was not inconsistent; and thus Judge Scheindlin should not have retried the jury's verdict that the current permit fee is reasonable.

Judge Walker affirmed Judge Schwartz's pre-trial ruling that the regulation does not violate Turley's equal protection rights, even though the regulation exempts City-sponsored musicians from the permit requirement. The City does not select which musicians to sponsor on the basis of the content of their speech, and thus the exemption does not deny equal protection, Judge Walker concluded.

Judge Walker also upheld the City's authority to confiscate amplifiers. "There is no evidence the City seizes amplifiers for the purpose of silencing musicians," he observed. Instead, the City said it confiscates amplifiers to retain evidence they can amplify as loudly as alleged; and they are returned to their owners when permit violation charges are resolved. When amplifiers are seized for this purpose, the judge concluded, "the City's amplification policy is constitutional."

Finally, Judge Walker upheld the constitutionality of the regulation that gives the City discretion to set maximum decibel levels. He noted that the jury had found that the decibel limit imposed on Turley was too low. "That the City got the appropriate sound limit wrong, however, is not proof that its method is arbitrary and unconstitutional." Judge Walker ruled that "If the City gets it wrong again when it establishes a new standard, then Turley's remedy is to bring another as applied challenge to the new standard."

*Turley v. Police Dept. of City of New Y*ork, 167 F.3d 757, 1999 U.S.App.LEXIS 948 (2d Cir. 1999)[ELR 21:3:17]

New York appellate court orders dismissal of musician's complaint against recording artist, because evidence at trial failed to prove alleged partnership between them

Singer-songwriter Marvin Prince has experienced the highest peaks and lowest valleys of litigation, all in a single lawsuit against his former collaborator, recording artist Darrin O'Brien who is known to his fans as "Snow."

According to Prince, he and O'Brien once were friends. They also had agreed to be 50/50 singer-songwriting "partners." However, when their efforts eventually resulted in a recording contract, O'Brien alone signed it. Prince became an employee of O'Brien's corporation and received salary and per diem payments from it. Prince also received $84,000 in

royalties for co-writing "Runaway," one of songs on O'Brien's "12 Inches of Snow" album.

While Prince's income was not insignificant, O'Brien received much more. When Prince finally realized he was making less than O'Brien, Prince left the tour and filed suit against O'Brien for the breach of their alleged partnership agreement.

The case started badly for Prince. By his own admission, the alleged partnership agreement was merely oral. Thus a New York state trial court dismissed the case on the grounds that it was barred by the Statute of Frauds. That valley was quickly followed by a peak, however: the Appellate Division reversed on the grounds that an oral agreement is sufficient to create a partnership at will (ELR 19:6:11).

That peak was followed by even higher ones when the trial court judge allowed Prince to amend his complaint to add a claim for quantum meruit just days

before trial was to begin. Although the trial court dismissed Prince's partnership claim before submitting the rest of the case to the jury, Prince reached the highest peak of all when a jury returned a verdict in his favor on the quantum meruit claim for $1.5 million - three times the amount he had requested!

Unfortunately for Prince, his case has gone only downhill from there. The trial judge granted O'Brien a new trial on the issue of damages. Worse yet, following cross-appeals by both performers, Prince has lost the rest of his case too.

In a Memorandum Decision, the Appellate Division has held that the trial court judge should not have allowed Prince to amend his complaint to add the quantum meruit claim, so close to trial. O'Brien had not had enough time to respond to Prince's claim that the fair value of the services he had rendered were worth

anything more than the salary, expenses and royalties he had been paid, the appeals court explained.

Moreover, the Appellate Division affirmed the trial court's decision to dismiss Prince's partnership claim. Prince and O'Brien "had not exercised joint control over the entertainment enterprise on which they collaborated," the Appellate Division observed. Moreover, although "the parties may have casually discussed splitting their hypothetical profits equally," before O'Brien became a success, "there was no evidence that they agreed to share losses, which is an 'essential element' of a partnership." Prince himself had testified that "the money he occasionally advanced to [O'Brien] was a friendly gift rather than a capital contribution to their alleged joint venture." And "Finally, when he toured with [O'Brien], [Prince] was designated and compensated as an employee of [O'Brien's] corporation."

As a result, the Appellate Division ruled that O'Brien was entitled to a judgment in his favor dismissing Prince's complaint.

Prince v. O'Brien, 683 N.Y.S.2d 504, 1998 N.Y.App.Div.LEXIS 13686 (1998)[ELR 21:3:17]

Court dismisses antitrust claims asserted by manufacturer of wooden baseball bats against NCAA and aluminum bat makers

Baum Research and Development Co. has struck out in its antitrust case against the NCAA and others. Despite the scientific sound of its name, Baum makes decidedly low-tech wooden baseball bats. The NCAA has rules concerning the types of bats college teams are permitted to use. But by Baum's own admission, those

rules contain remarkably "lax standards." In fact, the NCAA's bat standards are so lax, they permit college teams to use aluminum bats of the kind made by Baum's leading competitors.

Baum also acknowledges that aluminum bats are superior in performance to wooden ones, as evidenced by "a recent, dramatic rise in runs scored in collegiate baseball games." According to Baum, the superior performance of aluminum bats has had two more consequences: it has made college baseball "unsafe"; and it has prevented Baum from being able to sell its wooden bats to customers in the amateur baseball market.

Baum asserted this complaint in an antitrust suit alleging that its own injuries were the result of a "conspiracy" between the NCAA and aluminum bat makers. Federal District Judge Avern Cohn disagreed, however, and he has granted a defense motion to

dismiss Baum's antitrust claims on the grounds that they fail to state a claim.

Baum's antitrust claim failed for two reasons, the judge concluded. First, "Baum's . . . inability to sell the Baum Bat . . . is not the result of any anticompetitive effect on the market," he found. "Rather, Baum's injury stems from the competition itself: the performance of Baum's wooden composition bat is inferior to that of the bats manufactured by [Baum's competitors]."

Second, "Baum's injury flows from the NCAA's lawful refusal to change the baseball bat rules in its favor . . . [and] from the NCAA's lawful refusal to grant it a privilege rather than violations of the antitrust laws."

Baum Research and Development Co., Inc. v. Hillerich & Bradsby Co., Inc., 31 F.Supp.2d 1016, 1998

U.S.Dist.LEXIS 21761 (E.D.Mich. 1998)[ELR 21:3:18]

Duke University and its football coach did not violate Title IX by excluding woman place kicker from football team, because federal regulations permit single-sex teams in contact sports

Heather Sue Mercer was an All-State place kicker while in high school. When she enrolled at Duke University in 1994, she tried to join its football team too.

Apparently, she was permitted to practice with Duke's team and even played in a spring, intrasquad scrimmage. Apparently too, she was good - better even than some of the team's male place kickers. But Mercer was never given a team uniform or allowed to play in

any of Duke's intercollegiate football games. And eventually she was told she had "no right" to be at practice and she should leave.

Mercer did leave, but she also sued Duke and its head football coach, Fred Goldsmith, in federal District Court in North Carolina. Mercer asserted several claims, most under North Carolina state law. What got her into federal court was her allegation that Duke and Coach Goldsmith had discriminated against her on account of her sex in violation of Title IX of the Education Amendments of 1972.

Title IX is a federal statute that generally prohibits gender discrimination by educational institutions that receive federal financial support. Title IX's ban on gender discrimination applies to sports as well as other activities, and detailed regulations spell out what colleges may and must not do in the area of athletics in order to satisfy Title IX's requirements.

One subsection of these regulations fatally undermined Mercer's Title IX claim. The subsection in question permits colleges to have single-sex teams in "contact sports," and it specifically identifies football as one such sport. Federal District Judge Norwood Tilley thus concluded that because "football is clearly a 'contact sport,' a straightforward reading of this regulation demands the holding that, as a matter of law, Duke University had no obligation to allow Mercer, or any female, onto its football team."

The judge dismissed Mercer's Title IX claim for failure to state a claim. Since that was the only claim based on federal law Mercer had alleged, he dismissed her state law claims too, without prejudice, exercising his statutory authority to decline to exercise supplemental jurisdiction over them.

Mercer v. Duke University, 32 F.Supp.2d 836, 1998 U.S.Dist.LEXIS 20164 (M.D.N.C. 1998)[ELR 21:3:19]

Suspending high school football player for his senior season without a formal hearing, as punishment for his violation of school's zero-tolerance alcohol policy, did not violate student's due process rights, because even players with college scholarship opportunities do not have a constitutional right to play football

Kevin Jordan was an outstanding football player at O'Fallon Township High School in Illinois. He would have been the team's captain during his senior year. And college coaches had suggested they might offer him athletic scholarships.

All of those possibilities went down the drain when O'Fallon police found Jordan in the parking lot of a convenience store at 3 a.m., disheveled and shoeless and smelling of alcohol. Jordan claimed he had been assaulted by unknown assailants who had thrown beer bottles at him. But because Jordan's eyes were glazed and his speech slurred, the police concluded he was drunk.

O'Fallon Township High has a zero-tolerance alcohol policy. Those who violate it are not allowed to participate in extracurricular activities. After several informal meetings between school officials, Jordan, his father and his lawyer, Jordan was suspended from football for his entire senior year.

As often happens in these circumstances, Jordan sued. He claimed his suspension violated his constitutional right to due process, because he was not given a formal hearing. But the courts have disagreed.

In an opinion by Justice Clyde Kuehn, the Illinois Appellate Court has held that high school students do not have a property or liberty interest in taking part in interscholastic athletics. "Simply put," Justice Kuehn wrote, "playing football is a privilege rather than a right."

Jordan had acknowledged that "standing alone," playing football is not a constitutionally protected interest. His case was different, though, he argued, because he was so good a football player that he might have turned his participation in high school football into a college scholarship. Justice Kuehn was not persuaded. "Scholarship opportunities do not elevate participation in interscholastic athletics into an interest that due process protects because such opportunities are themselves mere expectancies." For several reasons outlined by the Justice, "the opportunity to earn an athletic scholarship is too speculative to elevate

participation in high school football to the level of a constitutionally protect interest . . . ."

Jordan v. O'Fallon Township High School District, 706 N.E.2d 137, 1999 Ill.App.LEXIS 59 (Ill.App. 1999)[ELR 21:3:19]

Previously Reported:

The United States Supreme Court has agreed to review two cases previously reported in the Entertainment Law Reporter.

In City of Erie v. Pap's A.M., 119 S.Ct. 1753, 1999 U.S.LEXIS 3201 (1999), the Court will review a Pennsylvania Supreme Court ruling that declared unconstitutional an Erie ordinance banning public nudity, even though the ordinance was strikingly

similar to an Indiana law whose constitutionality had been upheld by the U.S. Supreme Court (ELR 20:10:17).

In United States v. Playboy Entertainment Group, 119 S.Ct. 2365, 1999 U.S.LEXIS 4358 (1999), the Court will review a federal District Court decision which declared unconstitutional a Telecommunications Act provision that requires scrambling or time channeling of cable-TV channels dedicated to sexually oriented programming (ELR 21:2:14).

In separate orders, the United State Supreme Court has denied petitions to review several other previously reported cases.

In BellSouth Corp. v. FCC, 119 S.Ct. 1495, 1999 U.S.LEXIS 2858 (1999), the Court declined to review a federal Court of Appeals decision upholding the constitutionality of a Telecommunications Act provision that prohibits Bell operating companies from

engaging in electronic publishing, including the dissemination of sports, entertainment and news programming (ELR 20:6:24).

In Connection Distributing Co. v. Reno, 119 S.Ct. 1496, 1999 U.S.LEXIS 2860 (1999), the Court declined to review a federal Court of Appeals decision upholding the constitutionality of the record-keeping provisions of the Child Protection and Obscenity Act (ELR 20:9:17).

In Globe International, Inc. v. Khawar, 119 S.Ct. 1760, 1999 U.S.LEXIS 3266 (1999), the Court declined to review a California Supreme Court decision that affirmed a million-dollar defamation judgment against The Globe in favor of a Pakistani photojournalist who was identified as the actual assassin of Robert Kennedy in the book "The Senator Must Die" and then by The Globe in an article about the book (ELR 20:10:5).

In Batjac Productions Inc. v. GoodTimes Home Video Corp., 119 S.Ct. 2046, 1999 U.S.LEXIS 3838 (1999), the Court declined to review a federal Court of Appeals decision holding that the copyright to the script of the John Wayne movie "McLintock" went into the public domain, along with the movie itself, when the movie's copyright was not renewed (ELR 20:11:10).

In Sefick v. Gardner, 119 S.Ct. 2393, 1999 U.S.LEXIS 4443 (1999), the Court declined to review a federal Court of Appeals decision affirming that the First Amendment rights of artist John Sefick were not violated when the General Services Administration denied his application to display a sculpture of a judge in the lobby of a federal courthouse (ELR 21:2:15).
[ELR 21:3:20]

DEPARTMENTS

In the Law Reviews:

Entertainment and Sports Lawyer, published by the American Bar Association Forum on the Entertainment and Sports Industries, 750 North Lake Shore Drive, Chicago, Illinois 60611-4497, has issued Volume 17, Number 1 with the following articles:

Mortal Kombat: The Impact of Digital Technology on the Rights of Studios and Actors to Images and Derivative Works by Gerald O. Sweeney, Jr. and John T. Williams, 17 Entertainment and Sports Lawyer 1 (1999) (for address, see above)

Tactics and Strategy in Negotiating the Independent Distribution Agreement: Part 2 by Mark Litwak, 17

Entertainment and Sports Lawyer 3 (1999) (for address, see above)

Scuttling the Music Pirate: Protecting Recordings in the Age of the Internet by Barak D. Jolish, 17 Entertainment and Sports Lawyer 9 (1999) (for address, see above)

Videos May Have Killed the Radio Stars But Music Attorneys Are Driving Managers to Extinction by Robert Donnelly, 17 Entertainment and Sports Lawyer 14 (1999) (for address, see above)

Book Review: Sports Law by Michael E. "Judge" Jones, reviewed by Mark T. Gould, 17 Entertainment and Sports Lawyer 16 (1999) (for address, see above)

Loyola of Los Angeles Entertainment Law Journal has published Volume 19, Number 3 with the following articles:

Publicity Rights in the United States and Germany: A Comparative Analysis by Susanne Bergmann, 19 Loyola of Los Angeles Entertainment Law Journal 479 (1999)

Surviving Titanic: Independent Production in an Increasingly Centralized Film Industry by Howard M. Frumes, 19 Loyola of Los Angeles Entertainment Law Journal 523 (1999)

Shopping the Gray Market: The Aftermath of the Supreme Court's Decision in Quality King Distributors, Inc. v. L'Anza Research International, Inc. by Andrew

B. Chen, 19 Loyola of Los Angeles Entertainment Law Journal 573 (1999)

Drop the Government, Keep the Law: New International Body for Domain Name Assignment Can Learn from United States Trademark Experience by Angela Proffitt, 19 Loyola of Los Angeles Entertainment Law Journal 601 (1999)

Out of Bounds? Applicability of Federal Discovery Orders Under 28 U.S.C. Section 1782 by International Athletic Governing Bodies for Use in Internal Dispute Resolution Procedures by Nathan Reierson, 19 Loyola of Los Angeles Entertainment Law Journal 631 (1999)
[ELR 21:3:21]