INTERNATIONAL DEVELOPMENTS

Canadian Feature Film Advisory Committee recommends legislation that would separate Canadian from U.S. film distribution rights, a gross receipts tax on theatrical and video distributors, and restricting Production Services Tax Credit to Canadian producers of theatrical films

The process was rational, thorough and open; but it has produced a recommendation that puts Canada on a collision course with the United States. A Feature Film Advisory Committee appointed by Sheila Copps, the Minister of Canadian Culture, has delivered a report that urges the Canadian government to enact legislation that would do at least three things sure to raise the hackles of many in the entertainment industry, on the U.S. side of the Canadian border.

In a nutshell, the Advisory Committee has recommended:

* that Canada enact legislation that would require Canadian motion picture distribution rights to be licensed separately from U.S. distribution rights;
* that a 3.5% gross receipts tax be imposed on theatrical and video distributors operating in Canada; and
* that Canada's Production Services Tax Credit be limited to feature films produced by Canadians for theatrical release only.

Objectives

These and other less controversial recommendations are designed to give the Canadian film industry a boost - one that it sorely needs. Statistics disclosed by the Cultural Industries Branch of the Department of Canadian Heritage tell the tale.

The good: Canada produces a lot of movies for a country of its size. In fact, per million residents, Canada produces more movies than Australia, Italy or Germany; as many as the United Kingdom; and almost as many as the United States (2 movies vs. 2.6 movies, per year, per million residents).

The bad: Most movies produced in Canada are tiny-budget affairs, by Hollywood standards. Canadian production budgets now average just $2.4 million for English-language films ($2.8 million for those in French). Marketing budgets are even farther from the Hollywood mark. In Canada they average something like $150,000 per movie, though two-thirds of the movies financed by Telefilm Canada (between 1989 and 1995) had marketing budgets of less that $150,000, and only five had budgets greater than $450,000. (For comparison purposes, keep in mind that these figures are in Canadian dollars which are worth only 75% or so what U.S. dollars are worth.)

The ugly: When Canadians were polled about the importance of having Canadian films to choose from at their local theaters, a majority said it's important. But when Canadians actually choose which movies to see, they choose films that are not Canadian. The box office receipts of Canadian films in Canada are just 2% of the Canadian total. This puts Canada dead last among the major movie-producing nations of the world, when it comes to the percentage of the local box office that is earned by locally-produced movies. German, Australian and Spanish films garner roughly 10% of the box office in their countries. British films earn about 15% of the U.K. box office. French and Japanese films account for some 35% of the box office in those countries. This makes Canada's 2% performance surprisingly poor, even if the United States - where American movies generate 95% of the box office - is excluded from the comparison entirely.

Process

The process that led to the Advisory Committee Report began last year when the Canadian Heritage Department released a 23-page Discussion Paper entitled "A Review of Canadian Feature Film Policy" (ELR 19:9:5). The Paper described the problem, pinpointed its source, and suggested some possible solutions.

The problem was the poor performance of Canadian movies within Canada. The source of the problem - according to the Discussion Paper - is that "The film distribution industry in Canada . . . is dominated by subsidiaries of foreign entertainment multinationals which have, in the past, shown little interest in the distribution of Canadian films." (Universal Studios is, of course, a subsidiary of a Canadian company - a point not noted in the Discussion Paper.) The possible solutions included screen and shelf quotas for theaters and video stores, more restrictive foreign investment guidelines, and "distribution legislation" of unspecified content.

To its credit, the Canadian Heritage Department did not immediately recommend any of these possible solutions to the Canadian legislature. Instead, the Discussion Paper invited "comments and submissions from all interested Canadians." More than 110 comments were submitted.

One submission was from the Canadian Motion Picture Distributors Association - the Canadian representative for Disney, Columbia, MGM, Paramount, Twentieth Century Fox, Universal and Warner Bros. This submission provoked a rebuttal from the Canadian Association of Film Distributors and Exporters, an organization that represents Canadian companies, which complained "The Americans want it all." But other submissions revealed that there are lots of conflicts within the Canadian film industry, which have nothing whatever to do with "the Americans."

Screenwriters complained, for example, that less than 50% of development budgets are allocated to their fees, and they recommended that 85% be paid to them. The increase would presumably come out of money currently paid to producers and others involved in development, so this is a suggestion they have no reason to support.

Broadcasters wanted to be to be included in the creative development phase "to ensure that the final product has suitable production values for broadcast."

Others suggested that "experienced script editors be mandatory in the screenwriting and development process" and that editors be brought in at the treatment or first draft stage of writing. Screenwriters would of course be the recipients of the broadcasters' input, as well as the editing offered by script editors, so this is a suggestion that screenwriters have no reason to support.

Exhibitors sought tax credits for showing Canadian films. Currently, film-related tax credits go entirely to producers, so this is a suggestion that producers have little reason to support.

In short, each Canadian interest group made recommendations favorable to itself, usually at the expense of other Canadians rather than at the expense of Americans.

Report and recommendations

When the comment-and-submission phase of the process was completed, the Canadian Heritage Department drafted a 20-page summary of those comments and turned everything over to the Feature Film Advisory Committee. The Committee's 13 members represent Canadian producers, distributors and exhibitors. In addition to the written submissions, the Committee met with almost 100 individuals, associations and businesses, and also held round-table consultations with more than 80 feature film industry experts. All of this input resulted in a 27-page report, entitled "The Road to Success," containing the Committee's recommendations.

Many of these recommendations are of little concern to entertainment companies on the U.S. side of the Canadian border. They involve purely internal matters like reorganizing existing Canadian film support funds and creating a new fund, creating partnerships with Canadian cultural institutions, and getting Canadian television broadcasters to increase their support for feature films. Three recommendations, however, could affect American companies that now do business in Canada.

First, the Committee has recommended that the legislature amend the Canadian Competition Act, or enact new legislation, to prevent the tied sale of Canadian and U.S. distribution rights. "One of the key problems facing the Canadian distribution sector," the Committee reported, "is its lack of ability to compete for Canadian-only rights to non-proprietary films from outside Canada that are also distributed in the US." The reason that Canadian distributors can't compete is that "US film distributors, as a condition of distributing independently produced films to theatrical and home video markets, have uniformly insisted on obtaining Canadian distribution rights as well."

To prevent American distributors from continuing to do this, the Committee recommended new legislation that would "ensure that no person distributes a non-proprietary feature film in Canada if it or its affiliates is also distributing the same film in the US unless the availability of separate Canadian rights have been made known and other distributors have had an equitable opportunity to bid on those Canada-only rights."

Second, in order to raise $50 million in new government funding for Canadian feature films, the Committee has recommended "a 3.5% levy on gross receipts of theatrical and video distributors operating in Canada." On its face, this levy appears to apply equally to Canadian as well as American distributors. But in fact, its burden would be much heavier - in absolute dollar terms - on American distributors than on Canadian distributors. This is so because American distributors account for 85% of the gross receipts from theatrical exhibition in Canada. Canadian distributors account for just 15%. Thus, unless and until movies distributed by Canadian companies become more successful at the Canadian box office, American distributors will wind up paying 85% of the proposed new levy.

Third, the Committee has recommended that the Canadian federal government "revamp" its Production Services Tax Credit. As now written, the Production Services Tax Credit is a refundable tax credit equal to 11% of the wages paid to Canadian residents for services provided in Canada in connection with movie and television production. There is now no cap on the amount which can be claimed, and it is available to foreign-owned (as well as Canadian) corporations so long as they have permanent "establishments" in Canada. The Report pointedly noted that "This program benefits foreign producers - to the detriment of Canadian producers, who must compete for the services of Canada's professional film crews."

The Committee therefore recommended that the law be amended "to ensure that only Canadian feature film producers producing Canadian feature films for theatrical release" could claim the tax credit and its accompanying refund. The Committee calculated that if this were done, the credit could be increased from 11% to 20%, all of which would then flow to Canadian film producers.

A Review of Canadian Feature Film Policy, *Summary of Submissions*, Department of Canadian Heritage (1998), available on the Internet at www.pch.gc.ca/culture/cult_ind/filmpol/smiss/english.htm; *The Road to Success, Report of the Feature Film Advisory Committee*, Department of Canadian Heritage

(1999), available on the Internet at www.pch.gc.ca/culture/cult_ind/filmpol/pubs/advcomm/toc.html [ELR 21:4:4]

WASHINGTON MONITOR

FCC relaxes rules concerning local TV station ownership and radio-TV cross-ownership; under certain conditions, companies are now permitted to own more than one TV station, plus several radio stations, in same area

The Federal Communications Commission has voted to permit broadcast companies to own as many as two television stations and eight radio stations in a single market. In doing so, the FCC brought down the curtain on two rules that had prohibited such concentration for more than 30 years. The rules in question were those that had restricted television station ownership to just one per area, and that had prohibited most cross-ownership between radio and television station ownership in the same market.

The FCC's old, restrictive ownership rules were adopted long before multi-channel cable networks, satellite television and the Internet became parts of the media industry. Broadcasters successfully persuaded the FCC that these new media have given consumers countless new sources of information and entertainment, and that the old rules prevented broadcasters from operating as efficiently as their new competitors. The FCC agreed that multiple station ownership would permit broadcasters to operate more efficiently in some ways, and thus would permit them to improve their programming services to viewers and listeners.

FCC rules have long reflected the philosophy that viewers and listeners are best served by diversity, and that diversity is best achieved by requiring stations to be separately owned, at least within a single market. Thus, broadcasters asked a great deal of the FCC when they asked it to recognize that operating efficiencies, from such things as consolidated management and office space, could produce benefits for viewers and listeners too - benefits like increased news and public affairs programming, that could be more valuable to viewers and listeners than those produced by separate ownership.

The new rules reflect a dramatic shift in the FCC's thinking, towards the position advocated by broadcasters. Nontheless, the FCC continues to believe that benefits will flow from diverse ownership in many situations. Thus, multiple station ownership in a single area now is permitted when, but only when, certain circumstances exist in that area.

The new television station ownership rule will permit companies to own two stations:

* so long as they are in separate Nielsen market areas (like Washington D.C. and Baltimore), even if their signals overlap; and

* even if they are in the same Nielson market area if: one of the stations is not among the top four stations in the market (measured by audience share) and eight full-power independent stations (commercial or non-commercial) remain after the merger; or their signals do not overlap.

Even these limitations may be waived, so that companies may be permitted to own two stations in the same market, if:

* a television station owner in the samemarket is the only reasonably available buyer for another station that is "failing"; or
* the waiver will permit the construction of a previously unbuilt station.

The new cross-ownership rule will permit companies to own, in the same market, a television station - or even two, if permitted by the new TV station ownership rule - plus:
* one radio station, or
* as many as four radio stations, if at least 10 television stations, radio stations, cable systems or newspapers remain after the merger; or
* as many as six radio stations, if at least 20 other television stations, radio stations, cable systems or newspapers remain after the merger.

In the Matter of the Review of the Commission's Regulations Governing Broadcasting, FCC Report No. MM 99-8, MM Docket No. 91-221 and 87-8 (Aug. 1999) (available on the Internet at www.fcc.gov)[ELR 21:4:7]

RECENT CASES

Largo Entertainment wins AFMA arbitration against Korean distributor that failed to pay $650,000 Minimum Guarantee for "City of Industry," even though Deal Memo provided that distributor's payments were due only after Long Form agreement was signed and movie was approved by Korean censors, and neither occurred; California trial court enforces arbitration award despite distributor's argument that Korea's foreign exchange control regulations prohibit distributor from paying Largo

Largo Entertainment made a deal a few years ago that must have seemed, at the time, a good one. In return for a Minimum Guarantee of $650,000, it granted Digital Media Corporation the right to distribute Largo's movie "City of Industry" in Korea. As is common in deals of this kind, the parties' agreement was documented with a Deal Memo that was to be binding until a more formal Long Form Agreement was signed. The Deal Memo also provided that Digital Media would pay 20% of the Minimum Guarantee when that Long Form was signed, and 80% when "City of Industry" was approved by Korean censors.

Largo and Digital Media had done business with one another before, apparently without problem. Largo had granted Digital the right to distribute "Mulholland Falls" in Korea, in a deal that was similar in structure to the one they later made for "City of Industry."

As things turned out, however, the "City of Industry" deal turned into a problem for Largo. Though Largo sent Digital a Long Form for that movie, Digital never was signed it. Nor did Digital ever seek, let alone obtain, the approval of Korean censors. During the void created by Digital's inaction, another Korean company began distributing pirated copies of "City of Industry" in that country. And Digital refused to pay.

The Deal Memo also contained a provision by which Largo and Digital had agreed to resolve any disputes in accordance with the arbitration rules of the American Film Marketing Association. AFMA Arbitrator Gerald F. Phillips has ruled entirely in Largo's favor, awarding it the full $650,000 it sought plus interest, attorneys' fees and costs.

Arbitrator Phillips ruled that Digital could not assert, as a defense, the absence of a signed Long Form agreement, because Digital itself had breached the Deal Memo by failing to negotiate a Long Form in good faith. Nor could Digital assert the defense of "frustration of purpose" based on pirated versions of "City of Industry" - which Digital said had frustrated the purpose of the deal - because it is a custom of the motion picture industry that the risk of piracy is born by the distributor.

Because AFMA arbitration awards are not ordinarily published, Arbitrator Phillips' decision is printed below in full text. This decision became a matter of public record because Largo filed a Petition to Confirm [the] Arbitration Award in California Superior Court, and attached a copy of the award as an exhibit.

In response to Largo's Superior Court petition, Digital raised a novel and potentially significant defense. Despite having a western, even American, sounding name, Digital is a Korean company whose bank account is located, apparently, in Korea. Digital argued that Korea's Foreign Exchange Control Act requires Korean companies to obtain the approval of the Korean Ministry of Finance before making any payments from Korea to others overseas, for certain categories of imports. Movies and videotapes are among the imports for which such approval must be obtained, Digital argued.

Moreover, the International Monetary Fund Agreement - which has been ratified by the United States Senate and has thus become part of U.S. law - provides that contracts "which are contrary to the exchange control regulations" of an IMF member "shall be unenforceable in the territories" of other IMF members. Korea and the United States both are IMF members. Thus, according to Digital, the arbitration award requires it to do something it cannot legally do under Korea's exchange control regulations, thus making the Deal Memo unenforceable in the United States.

For these reasons, Digital urged the Superior Court to deny Largo's petition, arguing that the arbitration award was unenforceable under California

Civil Code section 1286.2, because the arbitrator had exceeded his powers. The Superior Court rejected that argument, however, without an opinion. In a one-sentence Judgment (which is reproduced in full text below, as well) the court confirmed the arbitration award.

Largo Entertainment, Inc. v. Digital Media Corporation, AFMA Arbitration No. 97/153, California Superior Court, County of Los Angeles, No. BS 054811 (1998)

[Full Text]

Largo Entertainment, Inc., Claimant
vs. Digital Media Corporation, Respondent

American Film Marketing Association International Arbitration Tribunal, Arbitration # 97/153
Gerald F. Phillips, Arbitrator

This matter came on for hearing before Gerald F. Phillips, Esq., Arbitrator, pursuant to the Rules for International Arbitration of The American Film Marketing Association, (AFMA), on September 24, 1998, in Los Angeles, California, at 2029 Century Park East, Suite 1200. Claimant, Largo Entertainment, Inc., was represented by Sheldon H. Lytton, Esq. of Kelly Lytton Mintz & Vann LLP and Respondent, Digital Media Corporation represented by David T. Miyamoto of Graham & James and Chan Jin Kim of the Korean Law Office of CJ International Law Offices. Counsel for both parties provided the arbitrator with excellent briefs. The arbitrator wishes to thank counsel for the professional manner in which they presented their case. Counsel for the Claimant and counsel for the Respondent, called witnesses and introduced documents into evidence. The Findings of Fact and

Conclusion of Law shall constitute the statement of reasons on which this Award is based.

A. Findings of Fact

Based upon all of the evidence presented, the Arbitrator makes the following findings:

1. On or about October 29, 1996 Digital Media Corporation, (Digital), entered into an agreement, (Deal Memo), with Largo Entertainment, Inc. (Largo) whereby Digital was granted the right to distribute the motion picture, "City of Industry", (Picture), in Korea.

2. The Deal Memo provided: "This Deal Memo is entered into pursuant to the laws of the State of California, USA, and shall be interpreted in accordance with the laws applicable to agreements entered into and wholly performed therein."

3. The Deal Memo provided: "This Deal Memo shall be a binding contract unless and until such time as Licensor, (Largo), and Distributor, (Digital), execute a more formal long form agreement." (Long Form Agreement).

4. The Deal Memo provided: "Any controversy or claim arising out of or relating to this Deal Memo or the validity, construction or performance of this Deal Memo, or any breach thereof, shall be resolved by binding and expedited arbitration in accordance with the rules and procedures of the American Film Marketing Association ('AFMA') as such may be amended from time to time."

5. Neither Party has objected to this controversy being arbitrated before Gerald F. Phillips pursuant to the International Rules of AFMA and have agreed that they received full notification of the hearing date.

6. The Deal Memo provided that Digital would pay a Minimum Guarantee of US $650,000, a 20% deposit was due and payable upon execution of the Long Form Agreement, and 80% due and payable within thirty days of approval of the Korean censorship authorities.

7. Largo upon receipt of the deposit was obligated pursuant to the Deal Memo to send to Digital a 35mm censorship print of the Picture and a final Master English dialogue/continuity list for the Picture.

8. Digital failed to remit the 20% deposit, $130,000.

9. The Deal Memo was drafted by Largo.

10. On or about December 3, 1996, Largo sent the Long Form Agreement to Digital.

11. Digital has admitted that it was the contemplation of Digital and Largo that the Long Form Agreement would be executed by each of the parties.

12. The Deal Memo did not state an express deadline when Digital would be required to execute the Long Form Agreement.

13. It is customary in the motion picture industry for the licensing of motion pictures for distribution of films in foreign countries that after the execution of Deal Memo agreements the licensor (in this case Largo) and the distributor (in this case Digital) would execute a Long Form Agreement incorporating additional usual and customary terms of distribution agreements.

14. Digital knew of this custom and in a prior agreement with Largo for the Motion Picture "Mulholland Falls" executed a Long Form Agreement, a short time after it was sent to it by Largo.

15. It was Digital's intentional failure to execute the Long Form Agreement that no Long Form Agreement was executed.

16. Digital did not advise Largo that it wished to make any changes in the Long Form Agreement.

17. Digital did not negotiate in good faith in any way with respect to changing the Long Form Agreement.

18. It was admitted during the hearing and in documentary evidence that Digital failed to execute the Long Form Agreement so that it could attempt to renegotiate its agreement with Largo.

19. The Deal Memo and the Long Form Agreement are the operative agreements between the parties.

20. Largo, in December 1996, sent to Digital a screening cassette of "City of Industry" which it believed would permit Digital to seek and obtain censorship approval.

21. Digital never advised or requested from Largo the delivery of a 35mm censorship print of the

Picture and a final Master English dialogue/continuity list for the Picture.

22. The Deal Memo provided that Digital would seek censorship approval within 30 days of receipt from Largo of a 35 mm censorship print of the Picture and a final Master English dialogue/continuity list for the Picture.

23. Digital for a period of one year, commencing with its receipt of the screening cassette, in Dec 1996, intentionally failed to seek censorship approval to permit it to import and distribute "City of Industry" in Korea.

24. Obtaining the censorship board's approval would have afforded Digital protection against the piracy or the unauthorized distribution of "City of Industry" by Hana Vision and Lucky Films, which submitted a fraudulent application for Korean censorship approval.

25. A Digital witness admitted: "The delay in executing the Long Form Agreement was done to help reduce the price." To the same affect Min-Jung Park in his affidavit stated that after previewing the screening cassette tape (of City of Industry) which took place after the execution of the Deal Memo, he believed that the price should be lowered and henceforth he began price negotiations. "For this reason I (Mr. Jun-Kim) was not actively engaging in the execution of the long form agreement."

26. The failure by Digital to seek and obtain censorship approval allowed the piracy of the motion Picture "City of Industry".

27. On or about December 5, 1997, representatives of Digital discovered that a pirated version of "City of Industry", under the Korean name "Dea Gang Tal", was being widely distributed on video

tape in Korea by Hana Vision, Edge Entertainment and/or Lucky Films.

28. On December 11, 1997 Digital informed Largo in writing of its discovery of the piracy.

29. Digital by virtue of its failure to seek censorship approval within a reasonable time after the execution of the Deal Memo allowed Hana Vision and Lucky Films to submit a fraudulent application for Korean censorship approval.

30. Hana Vision and Lucky Films submitted a fraudulent application for Korean censorship approval.

31. As a result of the censorship approval obtained by Hana Vision and Lucky Films Digital could not readily seek censorship approval.

32. Revenues from video and rentals constitute a major portion of the revenue derived from the distribution of a motion picture in Korea.

33. Digital failed to remit 80% of the Minimum Guarantee, $520,000.

34. Digital knew that piracy of a motion picture was a problem in Korea and that it was foreseeable.

35. The custom and practice in the industry is that the risk of loss due to piracy is borne by the distributor.

36. Digital knew or should have known when it executed the Deal Memo of the custom and practice in the industry that the risk of loss due to piracy was borne by the distributor.

37. A prior agreement with Largo for the motion picture "Mulholland Falls" provided that the risk of loss due to piracy was to be borne by Digital.

38. At no time after receiving the Long Form Agreement for "City of Industry" from Largo did Digital raise any question about the provision in the agreement by which Digital bore the risk of loss due to

piracy. The prior agreement for "Mulholland Falls" provided that Digital bore the risk of loss due to piracy.

39. At no time after receiving the Long Form Agreement for "City of Industry" from Largo did Digital raise any question about paragraph 19.5 of the Long Form Agreement which provided: "No piracy of the picture, whether occurring before or after execution of this Agreement, will allow Distributor to terminate this Agreement or reduce any amounts due Licensor."

40. Largo has performed, or has stood ready, willing and able to perform, all of the material obligations to be performed under the terms of the Deal Memo and the Long Form Agreement.

41. Digital had an obligation to do whatever was necessary to seek censorship approval to distribute the film in Korea.

42. The discussions between representatives of Digital and Largo with reference to deferring the

delivery of and payment for the Picture, until December 1997, and any agreement that may have been reached relating thereto, which Largo denies and to which there is no documentary evidence to support any such agreement, did not change Digital's obligations under the Deal Memo to execute the Long Form Agreement and to seek censorship approval to distribute the film in Korea.

43. Digital continually reaffirmed that it intended to fulfill its deal and to pay the balance due.

44. There were administrative and judicial remedies available to stop the piracy and to obtain censorship approval permitting Digital to import and distribute the Picture "City of Industry".

45. Digital did not immediately, after learning about the piracy, avail itself of the administrative and judicial remedies available to stop the piracy and to obtain censorship approval.

B. Conclusions of Law

1. The Deal Memo of October 29, 1996, is a valid and binding contract.

2. Digital breached its obligations under the Deal Memo which provided: "The Deal Memo shall be a binding contract unless and until such time as Licensor (Largo) and Distributor (Digital) executes a more formal long form agreement."

3. Digital breached the Deal Memo in that it failed to pay to Largo the sum of $650,000, the amount due pursuant to the Deal Memo.

4. Digital breached the Deal Memo in that it failed to submit to the Korean censorship authorities the screening cassette of City of Industry, which was forwarded by Largo, or to request from Largo any additional materials which Digital required to submit to

the Korean censorship authorities to receive importation approval.

5. Digital by its intentional failure to execute the Long Form Agreement, within a reasonable time after it received it from Largo, became obligated to pay the Minimum Guarantee set forth in the Deal Memo.

6. Digital breached its obligations under the Deal Memo to negotiate in good faith the Long Form Agreement and to execute a Long Form Agreement within a reasonable time after the Long Form Agreement was submitted to Digital by Largo.

7. Digital breached the implied covenant of good faith and fair dealing which required it to execute the Long Form Agreement.

8. Digital breached the implied covenant of good faith and fair dealing to seek censorship approval permitting it to import and distribute the Picture "City of Industry" in Korea.

9. Digital breached its agreement under the Deal Memo to apply for approval from the Korean censorship authorities to permit it to import and distribute the "City of Industry."

10. Digital is estopped from asserting as a defense that there was no Long Form Agreement because Digital intentionally failed to execute or in good faith to negotiate the Long Form Agreement.

11. Digital is estopped from asserting as a defense that it was not obligated to pay the Minimum Guarantee because no Long Form Agreement had been executed by Digital because it failed to execute a Long Form Agreement.

12. Digital, by virtue of the custom and practice in the motion picture industry that the distributor, (in this case Digital) bears the risk of piracy, breached its obligation under the Deal Memo to promptly assert all

administrative and judicial remedies available to permit it to distribute the "City of Industry."

13. Digital may not establish a defense of frustration of purpose because the frustrating event, the piracy, was foreseeable.

14. Digital may not rely on the piracy to establish a defense of either failure of consideration or frustration of purpose because Digital was solely responsible for any losses resulting from the piracy.

15. Digital may not be heard to argue that there has been a failure of consideration entitling Digital to rescind the Deal Memo because of the piracy in Korea of the Picture "City of Industry". The alleged inability of Digital to obtain Korean censorship approval for the importation of the Picture was caused by Digital's own delay in not signing the Long Form Agreement and not seeking censorship approval.

16. Digital may not be heard to argue that the consideration to Digital had been rendered void and entitled Digital to rescind the Deal Memo because of the piracy in Korea of the Picture "City of Industry". The alleged inability of Digital to obtain Korean censorship approval for the importation of the Picture was caused by Digital's own delay in not signing the Long Form Agreement and not seeking censorship approval.

17. Digital may not establish a defense of frustration of purpose because the alleged frustrating event, piracy and Digital's difficulty in obtaining censorship approval for the importation of the Picture, was caused by Digital's own delay in not signing the Long Form Agreement and not seeking censorship approval.

18. Digital may not establish a defense of impossibility of performance because the piracy and

Digital's difficulty in obtaining censorship approval for the importation of the film, was caused by Digital's own delay in not signing the Long Form Agreement and not seeking censorship approval.

19. Digital is solely responsible for any loss that may have resulted from the piracy of the Picture because Digital was responsible for the delay in seeking censorship approval which allowed the pirate to obtain the approval of the censorship board.

20. Digital breached its obligations when it failed to promptly proceed to assert all administrative and judicial remedies available to stop the piracy and to obtain censorship approval permitting Digital to import and distribute the Picture "City of Industry."

21. Whether or not there was any agreement between the parties to modify the Deal Memo that agreement would not affect Digital's obligation to proceed to seek censorship approval.

22. Digital is barred from asserting that the piracy of "City of Authority" permitted it to terminate the Deal Memo with Largo.

23. Claimant has suffered damages as set forth in the Award.

C. Award of Arbitrator

In consequence of the evidence, testimony presented and the arguments of counsel and the Findings of Fact made, it is hereby Ordered as follows:

1. Digital is hereby ordered to pay to Largo, within twenty days (20), from the date of this Award:

a. The sum of Six Hundred and Fifty Thousand Dollars ($650,000), the License Fee which was due and payable pursuant to the Deal Memo.

b. Added to this sum shall be interest calculated at the legal rate of interest, Ten Percent

(10%), on the payments due pursuant to the Deal Memo from the dates specified below.

c. Interest on the sum of $130,000 which was due and payable to Largo, on December 18, 1997, at the rate of $35.61 per day for the period of 295 days, (12/18/97 to 10/9/98) totaling $10,504 with additional interest at the rate of $35.61 for each day from October 9, 1998 to the date that the full amount sum of $130,000 is paid.

d. Interest on the sum of $520,000 which was due and payable to Largo no later than March 18, 1998 at the rate of $142.46 per day for the period of 205 days (3/18/98 to 10/9/98) totaling $29,204 with additional interest at the rate of $142.46 for each day from October 9, 1998 to the date that the full amount sum of $520,000 is paid.

e. The Arbitrator finds that the facts in this matter justifies an unequal allocation of the costs.

Digital shall bear all of the costs which Largo paid, as its share, to AFMA in the total sum of Two Thousand Five Hundred, ($2,500) plus the legal rate of interest, Ten Percent (10%) from the date the said costs were originally paid to the date hereafter repaid by Digital to Largo and the fees paid by Largo to the arbitrator in the sum of Six Thousand Dollars, ($6,000) plus the legal rate of interest, Ten Percent (10%) from the date said fees were originally paid to the arbitrator to the date hereafter repaid by Digital to Largo.

f. The Arbitrator further determines that this is an appropriate case for awarding the actual fees and costs of Largo's attorney fees and costs, paid by it to Kelly Lytton Mintz & Vann LLP, Thirty-Eight Thousand Six Hundred and Sixty Nine Dollars ($38,669) and to the Korean law office of Kim & Chang, Eight Thousand Six Hundred and Ninety Dollars, ($8,690) incurred by Largo in the prosecution of this arbitration to be paid by Digital, plus the legal rate of interest, Ten Percent (10%) from the date hereof.

The arbitrator does not Award that portion of Largo's attorney fees and costs which were incurred in connection with the "Request by Petitioner Largo Entertainment for Determination of Default by Respondents Digital Media Corporation and for Interim Award", and awards to Digital the costs of its attorney fees and costs incurred by it in connection with said request which has been deducted from the amount due to be paid by Digital to Kelly Lytton Mintz & Vann LLP as set forth above. The arbitrator has not included in the fees to be paid by Digital to Largo for any fees attributed to any services rendered by Kim & Chang in connection with endeavoring to discover the piracy.

November 16, 1998.

Gerald F. Phillips, Arbitrator

[Full Text]

Largo Entertainment, Inc., Petitioner,
v. Digital Media Corporation, Respondent
Superior Court of California, County of Los Angeles
No. BS054811

The award of Gerald Phillips, Esq., having been confirmed by order of this court on 12/30/98 and no statement of decision having been requested by any party,

It is adjudged that petitioner Largo Entertainment, Inc. recover from respondent Digital Media Corporation the sum of $756,431.20, together with interest thereon at the rate of ten (10%) percent per year from the date hereof.

Dated: December 30, 1998
Aurelio Munoz, Judge of the Superior Court
[ELR 21:4:8]

NFL agreement with DirectTV for satellite transmission of games is not exempt from antitrust laws, federal appellate court affirms

From the National Football League's point of view, a now-pending case stands for the proposition that no good deed goes unpunished. The case in question is a class-action antitrust lawsuit that has been filed against the League on behalf of fans who want to watch NFL games on television. Virtually every NFL game played is available on television. But the lawsuit complains that the NFL has made its games available in a way that requires fans to pay "artificially high and non-competitive prices" and "restricts the options available" to them.

Football fans in most places are able to watch two or three NFL games on free TV every Sunday, as a result of contracts the League has with advertiser-supported networks. Sometimes, however, the games that particular fans want to watch - though available for free on network television somewhere in the country - are not carried by their local network affiliates. To satisfy these fans, the NFL has entered into a contract with DirecTV, the satellite-to-home television company. That contract is the under-appreciated good deed, because it is the NFL's contract with DirecTV that is the target of the pending antitrust lawsuit.

The NFL has authorized DirecTV to offer its subscribers a package called "NFL Sunday Ticket" consisting of all NFL games being broadcast anywhere in the country. DirecTV sells the package on an all-or-nothing basis (not one game at a time) at a fixed cost for the season (in addition to the price DirecTV customers pay for their monthly service).

By agreement among NFL clubs, individual teams don't sell satellite TV rights to their games, apart from the deal the League has made with DirecTV. Nor has the League made satellite TV deals with companies other than DirecTV, not even with satellite companies that might have been willing to permit viewers to pay for individual games, or the games of particular teams. This apparently is why the lawsuit claims that the DirecTV contract results in "non-competitive prices" and "restricts options."

The National Football League's practice of selling television rights in a single package has been the subject of antitrust litigation before, including litigation brought by the federal government. As long ago as 1953, in the case filed by the government, a federal court ruled that an NFL package sale to CBS violated the antitrust laws. In response to that ruling, Congress eventually passed the Sports Broadcasting Act of 1961. That Act created an antitrust exemption for agreements between professional sports leagues and broadcasters for the "sponsored telecasting" of league games.

The NFL games, which DirecTV transmits to its subscribers, originate as sponsored network telecasts. Therefore, the League responded to the pending class action by arguing that its contract with DirecTV is exempt from antitrust scrutiny by the Sports Broadcasting Act. The argument was made in a motion to dismiss, but it failed to persuade. A federal District Court denied the League's motion; and the Court of Appeals has affirmed.

In an opinion by Judge Carol Mansmann, the appellate court has held that the Sports Broadcasting Act exempts only those broadcasts that are financed by sponsors in return for advertising time and are therefore provided free to the general public. This is true, Judge Mansmann said, under the plain meaning of the Act and also under the Act's legislative history which confirms that "the Act addresses only the sale of games to a sponsored television network."

Satellite transmissions that are available only by subscription are "not within the Sports Broadcasting Act's exemption to the antitrust laws," Judge Mansmann held. Since the issue was raised in a motion to dismiss, the question of whether the League's contract with DirecTV actually does violate the antitrust laws has not yet been litigated. Now, however, as a result of this ruling, the NFL will have to defend the case on its antitrust merits.

Shaw v. Dallas Cowboys Football Club, 172 F.3d 299, 1999 U.S.App.LEXIS 6374 (3d Cir. 1999)[ELR 21:4:12]

Simitar Entertainment is ordered to recall its "Slammin' Wrestling Hits" recording, because it never obtained negotiated mechanical licenses and was too late in attempting to exercise its compulsory license rights; court rejects "industry custom" as defense to unlicensed album sales

The music industry never knows, for sure, where its next hit will come from. Early this year, an album titled "WWF - The Music, Volume 3" was a huge success. It's nothing more than a collection of the musical "entrance themes" for WWF wrestlers. But a million copies were shipped, and 500,000 actually sold, in just two months.

Success breeds imitation. And "WWF - The Music" was more susceptible to imitation than most successes. Armed with the Copyright Act's "compulsory mechanical license," all another record company had to do was re-record such tunes as the "Stone Cold Steve Austin Theme," the "Val Venis Theme" and the "Gold Dust Theme," and it could take advantage of the original's popularity and maybe even the WWF's promotional efforts.

This is in fact what Simitar Entertainment did, sort of. Simitar - a Minnesota-based Delaware corporation that's been in the record business about three years - released an album of its own titled "Slammin' Wrestling Hits." Many of the cuts on Simitar's album were re-recordings of the themes that are on "WWF - The Music." Though recordings of wrestler themes may seem to have a limited market, Simitar's album was a success too. More than 50,000 copies of it were quickly sold, out of 350,000 that were shipped.

Simitar failed to do one thing, however: it failed to get mechanical licenses for the cuts on its album. As a result, the manufacture and sale of "Slammin' Wrestling Hits" infringed the copyrights to the musical themes recorded on that album - copyrights that are co-owned by Cherry Lane Music Publishing Company and by the music division of the WWF's parent company, Titan Sports, Inc.

Cherry Lane and Titan responded as would have been expected: they sued Simitar for infringement, and quickly sought a preliminary injunction and recall order. Much to Simitar's probable chagrin, federal District Judge Lewis Kaplan has granted Cherry Lane and Titan the relief they sought, including an order requiring Simitar to recall from its distributors any copies of "Slammin' Wrestling Hits" they still have.

Simitar is not a record pirate. It attempted to get a negotiated mechanical license from Cherry Lane. It even faxed Cherry Lane a proposed a license form, offering to pay royalties at 75% of the statutory rate. For reasons detailed in Judge Kaplan's decision, Cherry Lane never responded. And when Titan eventually got involved, Titan said that it would not grant Simitar a negotiated license.

While Simitar was trying to get a negotiated license, the company's manufacturing and shipping departments were working apace. Thus, by the time Simitar sent the notice required by the compulsory mechanical license provision of the Copyright Act, it was too late: copies of "Slammin' Wrestling Hits" had already been shipped. The album had gone out unlicensed.

In defense of Cherry Lane and Titan's request for a preliminary injunction and recall order, Simitar argued "estoppel" and "unclean hands," saying that Cherry Lane had led it to believe that negotiated licenses would be agreed to. Moreover, Simitar said, it was an industry custom for music publishers to take so long to respond to requests for negotiated mechanical licenses that record companies frequently release albums before negotiated licenses are signed.

Judge Kaplan was not persuaded. "While industry custom and usage or a prior course of dealing between the parties is relevant to determining the meaning of a contract," he said, "it 'cannot create a contract where there has been no agreement by the parties . . .'" Moreover, an estoppel is created only where the other party's reliance is reasonable and justified. The judge found that "Simitar's alleged reliance on the assumption that a negotiated license would be forthcoming quite probably was unjustified," because of the circumstances surrounding its dealings with Cherry Lane and because Titan was a competitor who would be adversely affected by the diversion of sales from its album to Simitar's.

Judge Kaplan decided that a recall order would be proper in this case. Simitar had continued to ship its album after Cherry Lane and Titan had filed their motion, so few copies remained in Simitar's own inventory while almost 300,000 copies were in the hands of distributors. A preliminary injunction, binding on Simitar alone, would not stop sales of its album, while a recall order probably would, the judge concluded.

Cherry River Music Co. v. Simitar Entertainment, Inc., 38 F.Supp.2d 310, 1999 U.S.Dist.LEXIS 2579 (S.D.N.Y. 1999)[ELR 21:4:13]

Dismissal of personal manager's lawsuit against Deftones and Maverick Records is affirmed; claims for commissions and interference with contract were properly rejected, appellate court holds, because manager procured engagements for group without being licensed under California Talent Agencies Act

Personal manager Dave Clark has lost his lawsuit against the Deftones, a musical group that was once his client, and against Maverick Records, the group's record company. Clark had sued the Deftones to collect commissions he alleged were due him. And he sued Maverick for alleging interfering with the management contract he once had with the group.

The merits of Clark's claims have never been litigated. Instead, the Deftones responded to his commission-collection suit by asserting that Clark had procured engagements for them, without being licensed to do so by the California Labor Commissioner. Under the California Talent Agencies Act, those who procure employment for performers, or agree to do so, must be licensed; otherwise, their agreements are voidable.

The Deftones' response was made in a petition to the California Labor Commissioner. After a hearing, to which Clark objected, the Commissioner ruled in favor of the group and declared its contract with Clark to be "null, void and unenforceable," because Clark had procured numerous performances for the Deftones without being licensed.

Under California law, Clark was entitled to a trial de novo following the Commissioner's ruling. But he fared no better in court than he had before the Commissioner. A California trial court rejected Clark's arguments as to why he did not need a license, and it granted summary judgment to the Deftones and

Maverick. Clark has lost a third time, too: a California Court of Appeal has affirmed the dismissal of his case.

Clark's arguments were both procedural and substantive.

The California Talent Agencies Act provides that no proceedings may be brought concerning any violation of the Act that occurred more than one year prior. Clark last procured performances for the Deftones in August 1994, while the Deftones' petition wasn't filed until February 1997, two and a half years later. Thus, Clark's procedural argument was that the Deftones' petition under the Act was simply too late.

The Labor Commissioner, and then the courts, disagreed. They ruled that Clark's attempt to collect unpaid commissions from the Deftones was itself a violation of the Act, and the Deftones' petition was filed within one year of that. In an opinion by Justice Michael Nott, the Court of Appeal explained that this interpretation of the Act "assures that the party who has engaged in illegal activity may not avoid its consequences through the timing of his own collection action."

Clark's first substantive argument was that his procurement activities for the Deftones were merely "incidental" to his efforts to get the group a recording contract - something managers are permitted to do without being licensed. In a case called Wachs v. Curry (ELR 15:3:3), the California Court of Appeal did say that "incidental" procurement activities do not require a license. But in the subsequent case of Waisbren v. Peppercorn Productions (ELR 18:2:7) the same court disagreed, and held that even incidental procurement must be licensed. Now, in Clark's case, the court has ruled it "agree[s] with Waisbren that the interpretation stated in Wachs is dictum and that even incidental procurement is regulated."

Clark's final substantive argument was that he had received no commissions for his procurement activities, and thus did not have to be licensed for that reason. Again, however, the court disagreed. Justice Nott explained that the Act itself does not exempt unpaid procurement services; it applies to all who procure employment for performers, whether or not they are compensated for doing so.

*Park v. Deft*ones, 84 Cal.Rptr.2d 616, 1999 Cal.App.LEXIS 463 (Cal.App. 1999)[ELR 21:4:14]

Oral agreement between Butthole Surfers and Touch and Go Records was terminable at will, under state law; Copyright Act termination section, providing for termination after 35 years, is not a minimum license period, federal appellate court affirms

The Butthole Surfers are a musical performing group. Back in the mid-80s, they recorded "Hurdy Gurdy Man" and other songs which were released by Touch and Go Records. The deal between the Surfers and Touch and Go was unusual in three respects, one of which turned out to be critical. First, it provided that the Surfers were to receive 50% of their recordings' "net profits," rather than a mere royalty. Second, it was merely oral; no written agreement was ever prepared. And third, it didn't specify how long it was to last.

The Surfers and Touch and Go did business with one another for more than a decade under their oral agreement. Then, however, the Surfers demanded that they receive 80% of the profits, rather than just 50%. When Touch and Go refused, the Surfers sent the record company a letter terminating their agreement immediately.

Despite receiving the Surfers' letter, Touch and Go continued to make and sell their recordings. And the Surfers responded by suing for copyright infringement. A federal District Court granted the Surfers' motion for summary judgment, prompting Touch and Go to appeal, but without success.

Touch and Go made two arguments on appeal. First, it argued that the oral agreement was irrevocable, because consideration - in the form of a 50% share of the records' profits - had been paid. In an opinion by Judge Terence Evans, the Court of Appeals rejected that argument with but a single sentence. "This contention is without merit," the judge said.

Touch and Go's second argument was that under section 203 of the Copyright Act, the Surfers could not terminate Touch and Go's license until 35 years after the group had granted the license. That section does in fact provide that "Termination of the grant may be effected at any time . . . beginning at the end of thirty-five years from the date of execution of the grant."

Moreover, in the case of Rano v. Sipa Press (ELR 15:8:11), the Ninth Circuit Court of Appeals interpreted section 203 to mean that a license cannot be terminated earlier than 35 years unless it specifically provides for a shorter term. Since their oral agreement said nothing about its duration, Touch and Go argued that section 203 automatically gave the license a 35-year duration.

Fortunately for the Surfers, its case was not decided in the Ninth Circuit. Its case was decided in the Seventh Circuit. Judge Evans acknowledged the Rano case, but rejected it. "If the Rano decision were a Broadway show," the judge commented, "bad reviews would have forced it to close after opening night. Nimmer, for instance, finds Rano a 'remarkable result,' a 'wayward result,' 'stunning, both for its utter absence of support in law and for the breadth of its error.'"

Rather than constituting a minimum term for licenses, section 203 imposes a maximum duration even on those licenses that purport to be perpetual, Judge Evans held. Under Illinois law, the agreement between the Surfers and Touch and Go could be terminated by the Surfers at any time, because it was one that had no specified duration.

The letter the Surfers had sent Touch and Go "rendered the license agreement kaput," Judge Evans therefore concluded. Thus the decision of the District Court - finding that Touch and Go had infringed the Surfers' copyrights - was affirmed.

Walthal v. Rusk, 172 F.3d 481, 1999 U.S.App.LEXIS 5455 (7th Cir. 1999)[ELR 21:4:15]

Appeals court affirms MCA's victory in suit against television station that failed to pay license fees, but holds that MCA may not recover both contract damages for balance of license term and copyright infringement damages; also rules that MCA violated antitrust laws by requiring station to license "Harry and the Hendersons" in order to get other programs

Back in 1990, MCA Television entered into a licensing agreement with a Florida television station that has been nothing but trouble from the start. The license authorized WTMV-TV to broadcast several first-run television shows purely on a "barter" basis, plus "Harry and the Hendersons" for cash and barter. WTMV claims that it didn't really want "Harry," but had to agree to license it in order to get MCA's other programs.

From the beginning, the station was late with its payments, but MCA did not at first object. Finally, in 1994, MCA demanded payment of $175,000 then due. And when WTMV responded that it didn't have to pay for "Harry," MCA terminated the station's licenses for all programs. A month or so later, after the station continued to broadcast the no-longer licensed shows, MCA sued for breach of contract and copyright infringement. The station responded with an antitrust counterclaim, alleging that MCA had illegally tied broadcast rights for programs the station wanted to the rights for "Harry and the Hendersons."

MCA won on virtually all counts. The trial court awarded it more than $800,000 for breach of contract, and more than $1 million for copyright infringement. While the trial court ruled against MCA on the antitrust claim - finding that MCA had illegally tied "Harry" to the other programs - it also ruled that the station had not suffered any antitrust damages on account of that violation, and thus WTMV was awarded nothing in connection with what then appeared to be its symbolic antitrust victory.

Both sides appealed, and MCA prevailed again, on one important issue. WTMV had argued that it wasn't in breach at the time MCA rescinded its license, because the station had always been late with its payments, and MCA thus waived its right to demand payment on time. This issue was controlled by Florida state law which contains support for the station's argument, "in the ordinary case."

In this case, however, MCA's contract contained a clause which stated that MCA's "[a]cceptance of any payment after its due date shall not constitute a waiver by Licensor of any of its rights. . . ." Writing for the Court of Appeals, Judge Rosemary Barkett ruled that this clause was controlling. The judge explained that "notwithstanding MCA's acceptance without protest of [WMTV's] consistent late payments . . . , we conclude based on the anti-waiver provision contained in the licensing contracts that, under Florida law, [the station] was in breach of contract when MCA declared it as such in June of 1994."

Judge Barkett was not as good to MCA with respect to two other issues, however. She agreed with the station that the $1.8 million damage judgment was in error, because it constituted an unenforceable "penalty" under Florida law. The MCA license agreement included an acceleration clause that provided that if WMTV defaulted, all of the license fees payable for the balance of the contract would become immediately due and payable. That apparently is why the breach of contract award came to $800,000, rather than just the $175,000 that was due when the license was terminated. The contract also authorized MCA to terminate the license if payments were not made on time. That is why MCA did terminate the license; that is why the station's subsequent broadcasts were copyright infringements; and that is why MCA was awarded $1 million judgment for those infringements.

While this seems to be a double and overlapping recovery, the legality of just such a judgment was upheld in an earlier case (in a different Circuit) in a case won by Paramount Pictures against a non-paying television station (ELR 14:10:3). Judge Barkett, however, found that case "unpersuasive." She reasoned that "MCA seeks to have it both ways." By demanding the full amount of the accelerated damages MCA "is effectively ratifying the contract" while by suing for infringement it was "claiming to rescind the contract," the judge explained. For this reason, the appellate court concluded that MCA's contract "represents an unenforceable penalty under contract law." And the case has been remanded to the trial court for it to modify MCA's recovery to reflect only the actual damages MCA suffered as a result of WMTV's breach.

Judge Barkett also ruled against MCA on the antitrust claim. She rejected its argument that any tie between "Harry" and the other shows should have been evaluated under the "rule of reason" rather than the stricter "per se" rule used by the trial court. Worse yet, from MCA's point of view, the judge disagreed with the trial court's conclusion that WMTV had not suffered any antitrust damages. If the station can show that it suffered tangible financial harm, at the time it first signed the MCA contract, because it was then unable to seek alternative programming for the slot allotted to "Harry," those would be antitrust damages, Judge Barkett ruled; and the station will be entitled to recover three times those damages, under federal antitrust law.

MCA Television Ltd. v. Public Interest Corp., 171 F.3d 1265, 1999 U.S.App.LEXIS 6131 (11th Cir. 1999)[ELR 21:4:16]

Self-proclaimed "family man" has standing to oppose trademark registrations for "O.J. Simpson," "O.J." and "The Juice," federal appellate court rules

The Lanham Act prohibits the registration of "immoral" or "scandalous" trademarks. It also authorizes "any person" who believes he would be damaged by the registration of a trademark to oppose its registration by filing a statement of reasons with the Trademark Office.

Relying on this broad grant of authority, one William B. Ritchie opposed O.J. Simpson's registration of the trademarks "O.J. Simpson," "O.J." and "The Juice." Ritchie doesn't use these marks himself, so the damage he believes he would suffer from their registration has nothing to do with his business.

Instead, Ritchie describes himself as a "Christian family man" who believes that these marks disparage his family values. This is so, he alleges, because he believes that the "sanctity of marriage requires a husband and wife who love and nurture one another," and he says that he is a member of a group that could be damaged by marks that allegedly are synonymous with "wife-beater" and "wife-murderer." Ritchie also asserts that the marks are scandalous because they "attempt to justify physical violence against women."

Though the Lanham Act appears to authorize almost anyone to file opposition, caselaw has shown that it does not permit a "mere intermeddler" to do so. Opposers must show they have a "real interest" in the registration, and they must have a "reasonable" belief they will be damaged. The Trademark Trial and Appeal Board concluded that Ritchie didn't satisfy these tests, and it dismissed his oppositions.

The Trademark Trial and Appeal Board did not have the last word on this issue, however. Ritchie pursued the matter to the Court of Appeals for the Federal Circuit which has breathed new life into Ritchie's oppositions. In an opinion by Judge Jay

Plager, the appellate court began by emphasizing that the question before it was not whether the objected-to marks actually do constitute immoral or scandalous matter. "Rather," the judge said, "the issue is the narrower one of whether Mr. Ritchie is entitled to come before the Board and raise that question, that is - whether Mr. Ritchie has 'standing' to oppose the registration." The appellate court then held that he does.

According to Judge Plager, Ritchie "has a real interest, a personal stake, in the outcome of the proceeding and is more than a mere intermeddler and . . . the fact that his concerns are shared by a large number of people, perhaps even the vast majority of the American public, is in no sense a disqualification of his right to oppose the registration." The judge also ruled that Ritchie had demonstrated that his "belief of damage" has a "reasonable basis in fact."

Judge Pauline Newman dissented. Her concern, she explained, was not with Ritchie's "expression of his conscience." But, she added, "Mr. Ritchie's right to abhor Mr. Simpson's persona does not grant him standing to deprive Mr. Simpson of the right of statutory trademark registration."

*Ritchie v. Orenthal James Si*mpson, 170 F.3d 1092, 1999 U.S.App.LEXIS 4153 (Fed.Cir. 1999)[ELR 21:4:17]

Utah's "Greatest Snow on Earth" slogan does not violate federal trademark dilution rights of Ringling Bros.-Barnum & Bailey to its circus slogan "Greatest Show on Earth," federal appeals court affirms

When the Winter Olympics come to Utah in 2002, that state's "Greatest Snow on Earth" slogan will be ubiquitous - much to the displeasure of Ringling Bros.-Barnum & Bailey. The circus company has used the famous phrase "Greatest Show on Earth" since 1872, and as far as it's concerned, Utah's similar phrase dilutes the distinctiveness of the circus's slogan.

In 1995, Congress enacted the Federal Trademark Dilution Act, and thereby gave Ringling Bros. a federal statutory basis for seeking to prevent dilution of the "Greatest Show on Earth." Utah's slogan - which appears on license plates and merchandise and in tourist-oriented advertising - prompted a test case under the federal Act. According to Ringling, Utah's "Greatest Snow on Earth" violates the circus company's rights in its famous slogan. But Ringling Bros. lost its anti-dilution lawsuit against the state (ELR 19:7:14), and that loss has been affirmed on appeal.

Ringling argued that the Federal Trademark Dilution Act merely required it to prove that viewers of the two marks would make an "instinctive mental association" between them, and that such an association would be enough, by itself, to establish the kind of dilution that the Act prohibits. The courts disagreed, however. In a lengthy and scholarly opinion by Judge Dickson Phillips, the Court of Appeals has held that consumers' "instinctive mental association" of the two marks must have caused "actual economic harm to the famous mark's economic value by lessening its former selling power as an advertising agent for its goods or services."

At trial, Ringling had introduced survey evidence that may have shown a "mental association." But Judge Phillips agreed with the trial court that "the survey evidence does not show that use of Utah's junior mark had caused any actual harm to Ringling's mark in the form of a lessening of that mark's former capacity to identify and distinguish Ringling's circus as its subject."

Judge Phillips recognized that it will be difficult for trademark owners to provide evidence that proves the kind of harm required by this decision. But he doesn't think it will be impossible. "[T]here might be proof of an actual loss of revenues," he said, and it might be shown that this loss was caused by dilution "by disproving other possible causes." Alternatively, the necessary harm might be proved by a "skillfully constructed consumer survey designed not just to demonstrate 'mental association' of the marks in isolation, but further consumer impressions from which actual harm and cause might rationally be inferred." Finally, indirect evidence of such harm might come from "relevant contextual factors such as the extent of the junior mark's exposure, the similarity of the marks, [and] the firmness of the senior mark's hold."

Ringling Bros.-Barnum & Bailey v. Utah Division of Travel Development, 170 F.3d 449, 1999 U.S.App.LEXIS 4179 (4th Cir. 1999)[ELR 21:4:17]

American law determines whether British photos and digital images of public domain works of art are protected by copyright in U.S., federal court reaffirms; court also reaffirms that they are not sufficiently original to be protected under U.S. or British law

A British company sued a Canadian competitor for copyright infringement in an American court. It seems to have done so for two reasons: first, both companies have offices in New York; and second, some of the Canadian company's allegedly infringing activities took place in the United States.

The case raised a newly-contested issue in international copyright law; and it did so in the newly-emerging field of digital imaging. The British plaintiff is The Bridgeman Art Library, Ltd., a company that distributes CD-ROMs of photos of art works it has available for licensing. The Canadian defendant is Corel Corporation, which also distributes CD-ROMs of photos of art works.

Bridgeman alleges that many of the images of Corel's CD-ROM were copied from Bridgeman's CD-ROM. Bridgeman claims copyright in the allegedly copied images, even though the underlying works of art are now in the public domain. Thus, a fundamental issue in the case is whether copyright may be claimed in photos and digital images of public domain art works.

Because this case was brought in an American court, the copyrightability issue was preceded by another: which country's law should be applied in deciding whether Bridgeman's photos and digital images are protected by copyright? Federal District Judge Lewis Kaplan ruled at first that British law applied to that question, because, he reasoned, many of the original art works are in Britain, Bridgeman is based in Britain, and its photographs were first published there. The judge found that Bridgeman's transparencies and digital images are not original enough to be protected under British law. (ELR 20:12:13).

In the wake of that ruling, Judge Kaplan was "bombarded with additional submissions." In a motion for reconsideration, Bridgeman argued that the judge had misapplied British law, while Corel (and others) contended that the judge should have applied American rather than British law in the first place.

The judge has reconsidered his original ruling. He reached the same ultimate result - that Bridgeman's photos and digital images are not protected by copyright - but he got there by a different route.

This time he ruled that American law determines whether works are protected by copyright, even if those works are of foreign origin. Without deciding whether the Berne Convention requires a different result, Judge Kaplan noted that the U.S. Copyright Act itself contains the standards for protecting a foreign work, including one that is "a Berne Convention work." Moreover, the Copyright Act itself also recites that no rights may be claimed in reliance on the Berne Convention.

Judge Kaplan then applied U.S. copyright law to the question of whether Bridgeman's photos and digital images of public domain art works were sufficiently original to be protected by copyright; and he again concluded that they are not. The critical point in this case was Bridgeman's "own admission [that it] has labored to create 'slavish copies' of public domain works of art." While the judge assumed that "this required both skill and effort, there was no spark of originality - indeed, the point of the exercise was to reproduce the underlying works with absolute fidelity." This was fatal to Bridgeman's copyright claim, because "Copyright is not available in these circumstances," Judge Kaplan held.

Though U.S., not British, law determined this outcome, Judge Kaplan could not resist responding to Bridgeman's assertion that he had misapplied British law in his earlier ruling. Thus, the judge went on to reconsider that ruling too; and once again, he concluded that Bridgeman's photos and digital images would not be entitled to copyright under British law either.

Bridgeman Art Library, Ltd. v. Corel Corp., 36 F.Supp.2d 191, 1999 U.S.Dist.LEXIS 1731 (S.D.N.Y. 1999)[ELR 21:4:18]

Appeals court reinstates infringement suit filed by alleged writer of lyrics to Mariah Carey's "Hero"; orders of trial court that imposed sanctions on writer and required him to post security bond were proper, appeals court rules, but dismissing case when writer failed to do so, without considering whether he had ability to pay, was abuse of discretion

Though his copyright infringement suit has been pending for more than three years, Christopher Selletti has yet to back up his allegation that he was the one who really wrote the lyrics to Mariah Carey's hit recording "Hero." An enormous amount of time has been spent on the case, by lawyers and judges alike. But most of it has been devoted to the consequences of Selletti's failure to comply with procedural orders, rather than to the merits of his case.

Federal District Judge Denny Chin imposed sanctions of $5,000 on Selletti, when he repeatedly failed to comply with discovery rules and court orders. Judge Chin also ordered Selletti to post a $50,000 security bond, because it appeared that the merits of Selletti's case are "questionable" and the ability of the defendants - who include Carey, Sony Music, BMI and others - to recover their litigation costs "was in doubt."

When Selletti failed to pay the sanctions or post the bond, Judge Chin dismissed Selletti's case entirely. Selletti then appealed.

In an opinion by Judge Jose Cabranes, the Court of Appeals has ruled that Judge Chin did not abuse his discretion by imposing sanctions or requiring Selletti to post a security bond. The appellate court affirmed those orders.

However, the Court of Appeals has ruled that Judge Chin did abuse his discretion by dismissing the case entirely, without first giving adequate consideration to whether Selletti had the ability to pay the ordered sanctions or post the required bond.

The appellate court acknowledged that "serious problems may be posed by the growing number of non-meritorious suits brought by plaintiffs hoping for quick settlements from deep-pocketed defendants." The court also noted that "the deterrent created by [the] cost and fee-shifting provisions [of the Copyright Act] is diluted by the inability of a plaintiff to pay." Nevertheless, "the imposition of a security requirement may not be used as a means to dismiss suits of questionable merit filed by plaintiffs with few resources," the appellate court said, because doing so "would go far in making the federal court a court only for rich litigants."

The Court of Appeals faulted only Judge Chin's inadequate consideration of Selletti's ability to pay - not the ultimate result. The appellate said that on remand, Judge Chin could dismiss the case again if he finds that Selletti was in fact able to pay the sanctions and post the bond. Moreover, Judge Chin could even dismiss the case again based on Selletti's "overall conduct" apart from his failure to pay sanctions and post a bond. Or Judge Chin could dismiss the case, if he finds the defendants are entitled to summary judgment. The appellate court declined to affirm the appealed-from dismissal on these grounds, only because it was not clear from the record whether Judge Chin had already viewed any of these grounds as sufficient justification for dismissal of the case.

Selletti v. Carey, 173 F.3d 104, 1999 U.S.App.LEXIS 921 (2d Cir. 1999)[ELR 21:4:19]

Musicians union does not have First Amendment right to picket and distribute leaflets in Galleria area of Denver Performing Arts Complex, to call attention to Colorado Ballet's decision to replace live orchestra with recorded music, appellate court affirms

In 1997, the Executive Director of the Colorado Ballet decided to replace its live orchestra with recorded music for its upcoming performances of "Romeo and Juliet." The orchestra's players are members of the Denver Musicians Association, and the union responded as should have been expected. It picketed opening night and distributed leaflets telling ticket holders they had paid "Full price for half the show!"

The Colorado Ballet performed in the Temple Hoyne Buell Theatre in the Denver Performing Arts Complex. The Musicians Association therefore picketed and leafletted in the Galleria which is a covered walkway between the parking garage and the Theatre. The Complex has a policy against picketing in the Galleria, and the Musicians Association was ordered to leave by the Denver police. Apparently it did, then. But when the Ballet was about to begin performing "The Nutcracker," the Musicians Association claimed a First Amendment right to picket and leaflet in the Galleria, and it sought an injunction that would have permitted its members to do so.

A federal District Court denied the Musicians Association the injunction it sought, and that ruling has been affirmed by the Court of Appeals. Writing for the appellate court, Judge Deanell Tacha has held that the "Galleria is a nonpublic forum." As such, Denver's no-picketing or leafletting policy for the Galleria would be legal, so long as it is "viewpoint-neutral and reasonable in light of the forum's purpose."

Judge Tacha noted that Denver has a "flat ban on all leafletting, demonstrations, and similar activities" in the Galleria, and thus the policy is viewpoint-neutral. He also concluded that the policy is reasonable, because the Musicians Association "wished to picket and leaflet in the Galleria" exactly when it reaches "peak traffic flow." The risk of congestion that would have been created "presents real safety concerns," the judge explained. And picketing and leafletting "could seriously disrupt the ability of the Galleria to serve its designated functions."

Hawkins v. City and County of Denver, 170 F.3d 1281, 1999 U.S.App.LEXIS 3801 (10th Cir. 1999)[ELR 21:4:19]

Copyrights to unpublished "Chipper" dog comic strip were not infringed by Peanuts' "Snoopy," RCA Victor's "Chipper," or Tyson Foods' "Chicken Chipper," federal court rules

Philip Condon Fisher is a cartoonist. Years ago, he created a cowardly dog detective named "Chipper" which Fisher featured in a comic strip. Though the strip was never published, Fisher did register copyrights for it in 1971, 1988 and 1991.

Dogs of course are popular subjects for cartoon characters. The Peanuts character "Snoopy" is a dog, and so is the RCA Victor puppy. "Chipper" too is popular, as a name. RCA calls its puppy "Chipper"; and Tyson Foods sells boneless chicken patties called "Chick'n Chippers."

Relying on his "Chipper" copyrights, Fisher filed an infringement action against United Feature Syndicate, RCA, Tyson and many others. His case, however, has failed. In response to defense motions for summary judgment, Federal Magistrate Judge Donald Abram recommended that the case be dismissed; and District Judge Wiley Daniel has affirmed and adopted that recommendation.

Judges Abram and Daniel agreed that Fisher's claims were barred by the Copyright Act's three-year statute of limitations, but they also addressed his infringement claims on their merits. Those claims failed for two reasons. First, the similarities between "Chipper" and "Snoopy" were similarities of idea, not protectible expression. Second, copyright does not protect names.

For example, according to Fisher, "Snoopy" is portrayed as a cowardly detective in the cartoon "It's a Mystery, Charlie Brown" and in a series of Metropolitan Life Insurance commercials. The attributes of being cowardly and a detective are not protected by copyright, however, and thus couldn't be the basis for a successful infringement claim.

Likewise, since names are not protected by copyright, RCA didn't infringe Fisher's copyright by calling its puppy "Chipper," nor did Tyson, by calling using that name for its chicken patties.

Fisher v. United Feature Syndicate, Inc., 37 F.Supp.2d 1213, 1999 U.S.Dist.LEXIS 9674 (D.Colo. 1999)[ELR 21:4:20]

NCAA eligibility standard for freshmen athletes violates Civil Rights Act because standardized test score requirement has an unjustified disparate impact on minorities, federal District Court rules; appeal is pending

The National Collegiate Athletic Association has suffered a significant setback in its efforts to increase the number of athletes who eventually graduate from college. Though the NCAA's goal is laudable, its methods have been challenged by four African-American students in a federal Civil Rights Act lawsuit. They contend that the NCAA's freshman eligibility rule

- commonly referred to as "Proposition 16" - has an unjustified disparate impact on minority athletes, and violates Title VI of the Civil Rights Act of 1964 for that reason. In response to cross-motions for summary judgment, federal District Judge Ronald Buckwalter has agreed with the students.

For many years, NCAA rules did not permit freshmen to participate in varsity sports at all, apparently so they would devote more time to their studies during that critical first year. In 1971, that flat ban was eliminated, and a variety of different freshmen eligibility rules were put into place. By the 1980s, however, colleges were criticized for "exploiting" student-athletes who did not have realistic hopes of graduating. The NCAA responded in 1986 by adopting a freshman eligibility requirement that combined required high school courses with a minimum grade point average and a minimum score on one of the standardized college admissions tests (the SAT or the ACT). That requirement was replaced in 1992 when the NCAA adopted Proposition 16.

Proposition 16 amended the freshman eligibility rule for Division I schools by increasing the number of required high school courses and by creating a "sliding scale" eligibility index that permitted student-athletes to offset lower grade point averages with higher SAT or ACT scores, or to offset lower SAT or ACT scores with higher grade point averages. However, an SAT score of 820, or an ACT score of 68, is the minimum that must be achieved in order for a student to be eligible to participate in intercollegiate sports, or to receive an athletic scholarship, as a freshman. A score below these cutoffs, even with a grade point average of 2.5 or more, means that the student will have to wait until his or her sophomore year to participate in intercollegiate sports or receive an athletic scholarship.

Though color-blind on its face, Proposition 16 has disqualified a greater percentage of minority student-athletes than non-minorities. The four African-Americans who sued the NCAA allege that Proposition 16 denied them the opportunity to compete in intercollegiate sports as freshmen, had denied them admission to Division I schools, had denied them athletic scholarships at Division I schools, and had denied them recruiting opportunities.

A significant threshold issue in the case is whether the NCAA is subject to Title VI of the Civil Rights Act at all. The United States Supreme Court recently held that the NCAA is not subject to Title IX of the Education Amendments of 1972 simply because it receives dues from federally-financed colleges (ELR 20:11:7). The NCAA argued that it is not subject to Title VI for the same reasons relied on by the Supreme Court in that earlier case.

Judge Buckwalter agreed that dues alone would not make the NCAA subject to Title VI. But he found that in this case two other factors exist that do make the NCAA subject to Title VI. He found that the NCAA receives indirect federal financial assistance as a result of a federal grant to the National Youth Sports Program, which the NCAA controls. The judge also found that the NCAA controls, and is controlled by, its members; and its members are "undeniably subject to Title VI."

On the merits of the case, Judge Buckwalter found that Proposition 16 has a disparate impact on minority student-athletes. Much of the proof of this impact came right out of internal NCAA memos describing the findings of its own research.

Disparate impact alone would not have made Proposition 16 illegal, if it were justified by educational necessity. The judge agreed that the NCAA's goal of raising student-athlete graduation rates is a legitimate goal. But he found that the NCAA had "not produced any evidence demonstrating that the cutoff score used in Proposition 16 serves, in any significant way, the goal of raising student-athlete graduate rates."

Moreover, even if there were a relationship between SAT and ACT cutoff scores and graduation rates, the students had shown that there were other eligibility criteria available that would have had the same effect on graduation rates but would have disqualified fewer minorities. This evidence too came from the NCAA's own records, because it had considered other rules which would have produced student-athlete graduation rates of about 60%, compared to 61.8% for Proposition 16, while disqualifying fewer than 16% of African-American student-athletes, as compared to more than 19% who were disqualified Proposition 16.

Judge Buckwalter therefore declared that Proposition 16 is illegal and he enjoined the NCAA from continuing to use the minimum standardized test score component of it.

The NCAA has appealed Judge Buckwalter's judgment. The Court of Appeals has granted the NCAA's motion for a stay of the enforcement of Judge Buckwalter's judgment pending the outcome of the appeal.

*Cureton v. National Collegiate Athletic Asso*ciation, 37 F.Supp.2d 687, 1999 U.S.Dist.LEXIS 2359, 2914 (E.D.Pa. 1999)[ELR 21:4:20]

Illinois State University did not illegally discriminate against its male athletes, on the basis of their gender or race, when it eliminated men's intercollegiate wrestling and soccer teams and elevated women's soccer to a varsity sport

Illinois State University was caught between a rock and a hard place, and thus made a tough decision. In response, it got itself sued - in part, for allegedly violating the very federal law that compelled it to make the offending decision in the first place.

The law in question is Title IX of the Education Amendments of 1972 which prohibits discrimination on the basis of gender by educational institutions that receive federal financial assistance. Illinois State does receive such support and thus was barred by law from discriminating on the basis of gender in its intercollegiate athletic programs. Unfortunately, a campus study done in 1993 showed "a disparity between the percentage of female students in the undergraduate population at the University and the percentage of female participants in the intercollegiate athletics programs offered."

After much deliberation, the University decided to correct this imbalance by eliminating the men's wrestling and soccer teams after the 1994-95 season, and by elevating women's soccer to a varsity sport beginning with the 1995-96 season. While this may have pleased at least some the University's women, it displeased many of its men, especially those who had been promised wrestling or soccer scholarships.

The men sued. They alleged that by eliminating men's wrestling and soccer, the University had violated the very Title IX it was trying to comply with. Moreover, because some of the male wrestlers and soccer players were minorities, the suit also accused the

University of violating Title VI of the Civil Rights Act of 1964 which prohibits recipients of federal financial assistance from discriminating on the basis of race or national origin.

The heart of the Title IX claim was that men's teams had been "purposefully selected for elimination in order to increase the proportion of athletic opportunities available to women at the expense of men," and thus the decision to do so "violated Title IX on its face." Judge Joe McDade was not persuaded, however. In response to the University's motion for summary judgment, the judge noted that "Courts . . . have expressly and repeatedly upheld the reasonable application of this mechanism in similar situations as completely consistent with the dictates of Title IX." The judge said he was "not unsympathetic to the hardship caused by the members of the men's wrestling and soccer teams. . . ." Nonetheless, their "Title IX claim fails," he ruled.

The Title VI claim fared no better. The evidence showed that as a result of the elimination of the men's wrestling and soccer teams, minority participation in sports at the University was reduced 0.8% from 27.8% to 27%. On the other hand, the evidence showed that "35 male athletes who were not minorities also lost their team positions." As a result, Judge McDade concluded that the impact on minorities was "not disproportionately negative." Moreover, even if there had been a disparate impact on minority participation in athletics, the University had "asserted a legitimate non-discriminatory reason for the decision, that being the need to come into compliance with Title IX." The judge therefore dismissed the Title VI claim as well.

Harper v. Board of Regents, Illinois State University, 35 F.Supp.2d 1118, 1999 U.S.Dist.LEXIS 1591 (C.D.Ill. 1999)[ELR 21:4:21]

Americans with Disabilities Act requires Oregon athletic association to grant waiver of Eight Semester Rule to high school football player with Attention Deficit Disorder, federal court rules

Adam Bingham has won his Americans with Disabilities Act lawsuit against the Oregon School Activities Association. Federal Magistrate Judge Thomas Coffin has ruled that the ADA required the Association to waive its Eight Semester Rule so that Bingham could play football during his senior year in high school. Bingham suffers from Attention Deficit Disorder, and thus repeated the tenth grade. This is why his senior year football season was during his ninth semester in high school, and why a waiver of the Association's Eight Semester Rule was necessary for him to play that year.

Earlier in the case, Judge Coffin issued a preliminary injunction barring the Association from enforcing the Rule against Bingham or his school (ELR 20:12:18). Following a subsequent trial, the judge has entered a judgment in Bingham's favor, including an order that the Association pay his attorneys fees and an order requiring the Association to rewrite its Eight Semester Rule to provide an exception for learning disabled students.

In his post-trial ruling, Judge Coffin held that the Association is subject to the Americans with Disabilities Act, and that Bingham is "disabled" within the meaning of that statute. Much of the judge's ruling was devoted to whether waiver of the rule would be a "reasonable modification," and Judge Coffin found that it would. He noted that other Association eligibility rules - including grade and age rules - permit waivers, and that many students had received them. The judge was therefore not persuaded by the Association's argument that the Eight Semester Rule was an "essential" one.

The Association did score two victories in the case - though they did not alter its ultimate outcome. Judge Coffin held that the Association is not subject to the federal Rehabilitation Act simply because its dues-paying members receive federal financial assistance. The judge also held that the Association had not discriminated against Bingham intentionally, and thus he dismissed Bingham's equal protection claim.

Bingham v. Oregon School Activities Association, 37 F.Supp.2d 1189, 1999 U.S.Dist.LEXIS 2945 (D.Or. 1999)[ELR 21:4:22]

Golf pro was independent contractor, rather than employee, so federal anti-age discrimination law did not apply to country club's non-renewal of his contract, nor was he entitled to retirement or health plan benefits

Andrew Devers is a professional golfer - one who has been certified as "Class A" by the Professional Golfers Association. He had been the head golf pro at Quivira Lake and Country Club in Kansas since 1960 when in 1997 the Club notified him that his contract would not be renewed beyond that year.

At the time he received that unwelcome news, Devers was of course older than when he started with Quivira - 37 years older. Indeed, he alleged, it was his age that had caused his termination. Devers made this claim in a federal court in Kansas, in a complaint alleging the Club had violated the Age Discrimination in Employment Act. Devers also alleged that the Club had deprived him of retirement and health plan benefits in violation of the Employee Retirement Income Security Act.

Whether Devers' tenure as the Club's golf pro did in fact come to an end because of his advancing age will never be decided, because Judge John Lungstrum has dismissed Devers' case on other grounds. The Age Discrimination Employment Act applies only to employees, not to independent contractors. The judge determined that Devers was an independent contractor, rather than a Club employee, because Devers activities "were not supervised and he was free to operate the pro shop, supervise golf activities and conduct tournaments as he chose."

Judge Lungstrum also concluded that the Club's decision to deny Devers retirement plan benefits was not arbitrary and capricious, and its decision to deny him health benefits was proper.

Devers v. Quivira, Inc., 35 F.Supp.2d 1282, 1998 U.S.Dist.LEXIS 21292 (D.Kan. 1998)[ELR 21:4:22]

Court dismisses malpractice suit against lawyer who represented his son as well as complaining client in transaction in which they bought United States Wrestling Association; client had signed waiver of conflict letter and failed to show damage from lawyer's alleged malpractice

In the beginning, Larry Burton - who was then the general manager of the United States Wrestling Association - hoped the transaction would produce a multi-million profit. In the end, however, all it yielded was a bankruptcy and several lawsuits. One of the suits was a malpractice case filed by Burton against his former lawyer, Eugene Selker. Now that lawsuit, like Burton's other hopes, has evaporated. Federal District Judge James Gwin has granted Selker's motion for summary judgment, thus bringing Burton's malpractice claim to an early end.

The transaction on which Burton had pinned his hopes was one by which he planned to acquire ownership of the United States Wrestling Association for $2 million so he could quickly resell it to Vince McMahon, the chief executive of the World Wrestling Association, for $6 million to $8 million. Burton needed a lawyer to do these transactions and was introduced to Eugene Selker by the lawyer's son, Mark Selker. Burton and Mark Selker knew one another, because Burton had already made a USWA merchandising deal with Mark - a deal in which Mark was represented by his father Eugene.

Before agreeing to represent Burton, Eugene Selker advised Burton in writing of the conflict of interest that arose because of Selker's representation of his son Mark in a USWA-related transaction. Selker nevertheless said he would represent Burton, if Burton would waive any conflict. Burton did so, in writing.

According to Burton, an actual conflict arose almost immediately, because a deal to sell the USWA to McMahon could be made only if Mark Selker's merchandising contract were cancelled so that McMahon could handle USWA merchandising himself. Again according to Burton, Mark Selker refused to be bought out of his merchandising contract and instead insisted on becoming Burton's partner in the purchase of the USWA. Burton further alleged that Eugene Selker was an undisclosed partner in his son's merchandising company and thus had a personal interest in using the merchandising contract to prevent Burton from selling the USWA without Mark's participation.

While the facts were complicated, the law was not. Judge Gwin acknowledged that Eugene Selker had a potential conflict of interest by virtue of the dual representation of his son and Burton. But Burton had validly waived the conflict by signing and returning a copy of the letter by which Selker had advised Burton of this conflict. Burton argued that the letter did not contain every detail of the prior and anticipated relationship between him and Selker. But "Such detail is not necessary," the judge responded. "The facts demonstrate that Burton was informed of certain existing and potential conflicts posed by [Selker's] representation at the time he signed the waiver letter." Thus the judge rejected Burton's assertion that he was uninformed, as well as his assertion that he had not effectively waived the conflict of interest.

Other malpractice claims asserted by Burton were rejected as well, some on the grounds that Burton had waived them by signing the waiver letter, and others on the grounds that Burton had not submitted any admissible evidence of damage. For example, while Burton and Selker did buy the USWA, no sale to McMahon ever took place. Burton, however, had not submitted an affidavit from McMahon, or even from himself, stating that McMahon had actually agreed to purchase the USWA for any price. Burton merely argued that he once asked McMahon how much the

USWA was worth, and McMahon had said $6 million to $8 million.

Burton v. Selker, 36 F.Supp.2d 984, 1999 U.S.Dist.LEXIS 2154 (N.D.Ohio 1999)[ELR 21:4:23]

Dow Jones finally defeats defamation case filed by art conservator complaining about Wall Street Journal article that was critical of his restoration of vandalized painting by artist Barnett Newman; conservator is public figure, and there was no evidence that Dow Jones knew of or recklessly disregarded falsity of any statements in article, appellate court rules

It took Dow Jones two motions for summary judgment, and two trips to the Appellate Division of the

New York Supreme Court. But the newspaper company finally has defeated a defamation lawsuit that was triggered by a "brief, droll article" published in the Wall Street Journal.

The suit was filed by art conservator Daniel Goldreyer, because the offending article had been critical of work he had done in restoring a Barnett Newman artwork entitled "Who's Afraid Red, Yellow and Blue III" after it was slashed while on display at the Stedelijk Museum in Amsterdam.

Dow Jones' first motion for summary judgment was denied (ELR 15:11:22), and that ruling was affirmed by the Appellate Division in an opinion that said that the company could renew its motion if discovery showed that the Journal had not been "grossly irresponsible" (ELR 17:11:10). Dow Jones did renew its motion. But the trial court denied it once again, and even suggested that Goldreyer might be able to recover punitive damages (ELR 20:10:11).

A second appeal finally got Dow Jones the result it wanted. In a surprisingly short Memorandum Decision, the Appellate Division ruled that Goldreyer is "an involuntary limited purpose public figure," and thus would have to prove that the Journal had published its article with "actual malice." However, the Appellate Division found that the record in the case "clearly reveals the absence of evidence suggesting awareness by the Dow Jones defendants that any statements in the article were false or that the article was published with reckless disregard for the truth."

As a result, the appellate court granted Dow Jones' motion for summary judgment and dismissed Goldreyer's complaint.

Daniel Goldreyer, Ltd. v. Dow Jones & Company, Inc., 687 N.Y.Supp.2d 64, 1999 N.Y.App.Div.LEXIS 3003 (App.Div. 1999)[ELR 21:4:23]

Dismissal of privacy and other claims against NBC and Jane Pauley, triggered by "Dateline NBC" hidden-camera report about pay-per-call telephone industry, is affirmed on appeal

Most people enjoy being on television and will do almost anything to get there. Steve Wilkins and Thomas Scott are exceptions. Instead of being pleased that NBC broadcast a tape of them dining at Geoffrey's restaurant in Malibu, Wilkins and Scott sued the network, along with Jane Pauley and others. Wilkins' and Scott's complaint alleged a dozen separate causes of action, all prompted by the fact that the offending video was shot with a hidden camera and then aired as a segment of Dateline NBC under the title "Hardcore Hustle."

Wilkins and Scott were salesmen for SimTel Communications, a pay-per-call provider that programmed 900-number "adult entertainment" telephone lines and then sold them to investors. Dateline producers responded to a SimTel ad for investors that was published in USA Today, without telling Scott they were television producers. Instead, the producers said they were married, even though they weren't, and said they were potential investors.

A California trial court dismissed Wilkins' and Scott's lawsuit, in response to a defense motion for summary judgment. And the California Court of Appeal has affirmed.

Writing for the appellate court, Justice Patti Kitching has held that although California caselaw recognizes the tort of "intrusion" in the context of television videotaping (ELR 8:10:15, 20:5:13), no actionable intrusion took place in this case, for three reasons. First, the taped conversation did not concern a private matter nor did it occur in a private place. Geoffrey's patio was crowded, Justice Kitching noted, and the conversation took place close to other tables and while waiters were present. Second, Wilkins and Scott did not have a reasonable expectation of privacy at the luncheon meeting. And third, NBC's actions were not highly offensive to a reasonable person.

California has a penal code provision that makes it illegal to record a "confidential" communication; and Wilkins and Scott asserted that NBC violated this provision by taping their conversation with a hidden camera. Justice Kitching disagreed, however, for the simple reason that the taped conversation had not been "confidential."

Wilkins' and Scott's fraud claim was rejected too, because they had not justifiably relied on the producers' statements that they were married. Moreover, the relationship between Wilkins and Scott and NBC's producers was not the sort of relationship that imposed a duty on the producers to disclose that they worked for Dateline or that they were using hidden cameras.

An invasion of privacy claim faired no better. The complained-of broadcast did not disclose private facts, the justice concluded, even though it disclosed that Wilkins and Scott worked for SimTel as well as their names, likeness and voices. This was so, because under the circumstances, all of these facts "were of legitimate public concern and did not constitute a 'morbid and sensational prying into private lives for its own sake.'"

Finally, Justice Kitching upheld the dismissal of Wilkins' and Scott's claim for infliction of emotional distress, because NBC's conduct had not been "so extreme and outrageous 'as to exceed all bounds of that usually tolerated in a civilized society.'"

SimTel Communications v. National Broadcasting Company, Inc., 84 Cal.Rptr.2d 329, 1999 Cal.App.LEXIS 420 (Cal.App. 1999)[ELR 21:4:24]

Retlaw Broadcasting committed unfair labor practices by declaring impasse over requested provision concerning personal service contracts and by refusing to provide AFTRA with copies of existing personal service contracts, appeals court affirms

The relationship between collective bargaining agreements and personal service contracts is unique in the entertainment industry. In most businesses, unions negotiate employment terms for all of their members, and those terms are then documented in a collective bargaining agreement. In the entertainment and sports businesses, however, collective bargaining agreements often contain only the minimum terms of talent employment, and those terms may be improved upon by individually negotiated personal service agreements.

Retlaw Broadcasting owns KJEO-TV in Fresno, California. The television station's on-air personnel are members of AFTRA, and the union and Retlaw had a collective bargaining agreement from 1990 to 1993. That collective bargaining agreement was consistent with entertainment industry practice, in that it permitted the station to negotiate personal service contracts with AFTRA members, so long as the terms of those contracts were no less favorable for AFTRA members than the collective bargaining agreement.

When that collective bargaining agreement expired in 1993, Retlaw wanted to amend the personal service contract provision in two ways. First, Retlaw wanted the collective bargaining agreement to be compared to personal service contracts "as a whole" rather than term-by-term. Second, Retlaw wanted personal service contracts to be acceptable, regardless of their terms, so long as the salary paid pursuant to the personal service contract exceeded by 20% the minimum salary required by the collective bargaining agreement.

AFTRA refused to agree to these requested modifications, and it demanded that Retlaw provide it with copies of the station's existing personal service contracts with AFTRA members. Retlaw declared an impasse; it unilaterally implemented its last proposals; and it refused to give AFTRA the contracts it requested, saying that doing so would invade the privacy of its employees. The NLRB ruled that these actions amounted to unfair labor practices. And when Retlaw petitioned the Court of Appeals for review of the NLRB's ruling, the NLRB cross-appealed for enforcement of its order.

The NLRB has won on both issues.

In an opinion by Judge Barry Moskowitz, the appellate court has ruled that the personal service contract provisions sought by Retlaw were "permissive" rather than "mandatory" subjects of collective bargaining. This means that AFTRA could have bargained with Retlaw concerning those provisions, if the union wished to, but AFTRA could not be compelled to bargain about them. Since AFTRA could not be compelled to bargain over Retlaw's requested modifications, Retlaw had committed an unfair labor practice by declaring an impasse over that provision, the judge concluded.

Judge Moskowitz also agreed with the NLRB that Retlaw had committed an unfair labor practice by refusing to give AFTRA copies of the station's existing personal service contracts. The judge acknowledged that "An interest in privacy or confidentiality can support an employer's refusal to produce information to a bargaining representative." In this case, however, Retlaw had failed to show any need for confidentiality. No employees had ever asked that their personal service contracts not be disclosed to AFTRA, nor had Retlaw ever assured its employees that their contracts would be kept confidential, the judge observed.

Retlaw Broadcasting Co. v. National Labor Relations Board, 172 F.3d 660, 1999 U.S.App.LEXIS 5703 (9th Cir. 1999)[ELR 21:4:25]

Jury instruction does not require reversal of verdict that title of Time's "Teen People" magazine does not infringe trademark in Petersen Publishing's "Teen" magazine, appellate court decides

Petersen Publishing was, of course, disappointed with a jury's verdict that the company's trademark rights to the title of its "Teen" magazine were not infringed by the title of Time's "Teen People" magazine. The jury was led into error by one of the trial judge's instructions, Petersen thought. It therefore appealed, but without success.

For 40 years, Petersen had called its magazine 'TEEN. It registered its mark just that way - with an apostrophe and all capital letters. Then, in 1997, Petersen changed the magazine's title slightly, to Teen - without an apostrophe and with only the first letter capitalized.

During the course of its deliberations, the jury asked whether this change weakened or voided Petersen's trademark. The trial judge responded by instructing the jury that it should "consider whether Petersen has acquired common law trademark rights in that new design." According to Petersen, this instruction told the jury to disregard the company's 40-year use of the 'TEEN mark and it compelled the jury to disregard the common law rights Petersen had acquired in the word Teen over those years.

The Court of Appeals disagreed, however. Writing for the appellate court, Judge John Walker said that the jury instructions as a whole had properly stated the legal standards. The trial judge "was correct to distinguish between the new stylized logo and the previous one," Judge Walker wrote. "To the extent that Petersen acquired common law rights in the new design of the word, they could only have been acquired after use of that new design commenced."

While Petersen also owned trademark rights in the word itself, the trial judge's instructions did not prohibit the jury from considering whether those rights had been infringed. The judge "might have done better to emphasize more clearly the difference between rights in a word and rights in a particular version of that word," Judge Walker acknowledged. But the jury found there was no likelihood of confusion, and Judge Walker concluded that the instruction "was neither so prejudicial nor so confusing as to warrant reversal."

Time, Inc. v. Petersen Publishing Co., 173 F.3d 113, 1999 U.S.App.LEXIS 7508 (2d Cir. 1999)[ELR 21:4:25]

Court awards cable company almost $7.7 million in damages, fees and costs in suit against defendant who modified cable decoders to permit unauthorized viewing of scrambled programs including premium and pay-per-view channels

The record didn't reflect how much money Edwin F. Carillo Diaz earned from his 750 "clients" by modifying their cable-TV decoders so they could view scrambled cable programming without paying their cable company to do so. Whatever the amount, however, it is unlikely to have been nearly as much as he has been ordered to pay the cable company whose programs his clients were able to watch, without authorization, as a result of his handiwork. The illegally-decoded programs included those carried on the cable system's premium and pay-per-view channels

Federal District Judge Juan Perez-Gimenez has ordered Diaz to pay Century-ML Cable a total of $7,675,428, because Diaz' activities violated the federal Communications Act. This amount consisted of $10,000 in statutory damages for each of Diaz's 750 "clients," amounting to $7.5 million, plus $100,000 in additional enhanced damages for his willful violation of the law for financial gain, plus $75,428 in attorneys fees and costs.

Century ML-Cable Corp. v. Diaz, 39 F.Supp.2d 121, 1999 U.S.Dist.LEXIS 3538 (D.P.R. 1999)[ELR 21:4:26]

DEPARTMENTS

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The Insurance and Management of Intellectual Property Risks by Melvin Simensky and Eric C. Osterberg, 17 Cardozo Arts & Entertainment Law Journal 321 (1999)

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"Tobacco is a Filthy Weed and From the Devil Doth Proceed": A Study of the Government's Efforts to Regulate Smoking on the Silver Screen by Jason Edward Lavendar, 21 Hastings Communications and Entertainment Law Journal, Comm/Ent 205 (1999)

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