LEGAL AFFAIRS

The German Tidal Wave: German Investment in Hollywood Movie Production

by Schuyler M. Moore

Recently, a tidal wave of German Deutsche Marks has washed over Hollywood, and the impact is profound. The scope of the investment is staggering. German film companies are no longer simply purchasing German rights; in some cases, they are purchasing pan-European rights, and in others, they are making substantial equity investments in films. At the extreme, some German companies are willing and able to cash flow 100% of the budget of large films. The German players in this game are now setting up their own foreign sales divisions in order to sell the non-

German rights they are acquiring. Some are going a step further and investing in, or acquiring, distribution companies in other countries.

And what is driving this trend? The German stock market, long a bastion of investment in conservative industries, has recently expanded to encompass entertainment companies. The pent-up demand for these more glamorous investments overwhelmed everyone's expectations, resulting in a huge run-up in the stock price of the first public German film companies, so many other German film companies promptly followed suit. The public German entertainment companies now include Constantin, Helkon, Intertainment, Kinowelt, Senator, VCL, and others. Most of these offerings have been on the German Neuer Markt, a stock market associated with smaller, more volatile offerings - the German equivalent of our NASDAQ. It appears that the German public's demand for these offering is insatiable, as the offerings keep selling out (and then promptly rising in price). To meet this appetite, the latest trend is for non-German companies (e.g., Intermedia) to go public by combining with a German holding company.

So what do the German film companies do with all this inflow of cash from the public market? They have to invest it, and Hollywood becomes the primary beneficiary. And not a moment too late, as the German wave of financing is just in time to fill the receding tide of insurance-backed financing. Some of the recent transactions include the following:

* Intertainment's investment in films produced by Franchise and the Kopelsons.

* Kinowelt's investment in films produced by Pacific Western Productions.

* VCL's investment in films produced by Coppola and Woody Allen.

* Helkon's investment in films produced by Chuck Roven.

* Helkon's investment in Newmarket.

* Senator's investment in films produced by Joe Roth.

We represent several German film companies making these investments, and we have learned to be sensitive to the needs of the German stock market - the quiet, brooding omnipresence looking over the shoulder of every public German film company. And what does the stock market like? Try the following:

* Copyright ownership. Even when it becomes a mere legal formality (as the true value of films lies in the distribution rights), ownership of the copyright has a talismanic pull on the stock market.

* Gross revenues! Net profits are nice, but gross revenues really drive German stock market valuations. Thus, in structuring investments in companies, it becomes critical to obtain control (in order to consolidate gross revenues for accounting reporting purposes). When a German film company invests in a picture, it is best to obtain worldwide distribution rights, even if those distribution rights are promptly sold-off at cost, because of the huge increase in gross revenues.

* Big talent and big pictures. It is a lot more sexy to have one big picture than a lot of little ones. Just as big

talent can "open" a movie, they can also "open" a stock offering.

I predict that either a German film company will acquire a major U.S. studio, or a major U.S. studio will restructure in a way to go public on the German stock market. Just review the list of what is driving the German stock market (ownership of copyright, large gross revenues, and big pictures), and the conclusion is inevitable.

The transactions that have closed to date raise a number of interesting, complex business and legal issues. The business issues include the following:

* The transactions are driving up the price for German rights. In many cases, the selling price for German rights has moved from 10% up to 15% or more of the budget of a picture.

* The emphasis on large gross revenues is causing the trend toward acquisition of rights outside of Germany, and this trend, in turn, is forcing alliances with non-German distribution companies. The first obvious step has been the creation of pan-European distribution companies, with two or more distributors either consolidating directly under one holding company or working together in a joint venture or partnership, with a sharing of profits.

* In territories where alliances with non-German distributors are not practical, the German companies use sales agents to sell-off those territories. The natural evolution has been for the German companies to simply start creating or acquiring foreign sales companies in order to save the fees of third party sales agents and to have direct control over the selling process. Any public

German film company that has not yet created or acquired a sales company is planning to do so in the near future. This trend is causing a huge increase in the value of sales companies.

* Many of the transactions are being structured as split-right transactions, where two or more large foreign distributors band together in a joint venture to acquire all foreign rights to a picture, typically from a U.S. studio.

* Many of the transactions are being done as direct equity investments in U.S. production companies, including the funding of overhead and development costs. In exchange, the German distributor has the right to acquire films from the U.S. company, either on a first-look basis (i.e., where the German distributor has an option) or on an output basis (i.e., where the German

distributor must acquire all films produced by the U.S. production company).

The new structures and the business issues listed above lead to a number of interesting legal issues, such as the following:

* The importance of ownership of "copyright" to the German stock market has put the definition of copyright under a microscope. In truth, there is no worldwide copyright. Even under the Berne Convention, the scope of the protections for copyright is a country-by-country determination. People tend to use the word "copyright" to loosely refer to "whatever is left" after various distribution rights have been granted. If the distribution rights granted are extensive (for example, including the right to distribute derivative works), ownership of the residual copyright may not be

worth much. All of this requires a lawyer's scalpel in crafting the appropriate language.

* For corporate law purposes, how should the business relationships described above be structured? Should the parties use a partnership, a corporation, or an LLC (or their foreign equivalents)? This is a complex question that depends on the corporate laws of the countries where the various parties are located. It also depends on whether the parties wish to have limited liability for the activities of the group. At the extremes, the relationships range all the way from contractual "co-productions," on the one hand, to formal corporate holding structures on the other. For example, split-rights transactions are typically structured as contractual "co-productions."

* Whenever two or more parties band together in a business enterprise, the lawyers must negotiate and draft provisions implementing the intent of the parties with respect to the key issues of money in, money out, and control. Who has to make contributions or fund loses, and how is this obligation secured? What are the control mechanisms? If one party has control, what are the veto rights of the others? What is the order and priority for distributions? Are there fees off the top? Are there restrictions on transfers of interests?

* Tax issues are paramount in structuring these transactions. In most cases, the German company does not wish to become subject to tax in foreign jurisdictions, such as in the United States. This concern militates against certain structures, such as partnerships, and toward others, such as contractual "co-productions." If the activities within a particular

country, such as the U.S., are extensive, the German company may form a holding corporation in that country to hold all of its interests in that country, thus isolating taxation to the holding company.

One final note: the German companies are making these investments with a firm eye on acquiring Internet rights, because they see the long-term explosive growth of distribution of films on the Internet. Ah, but this is a separate story (which, for those with an interest, is discussed in the author's book, The Biz).

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[ELR 22:2:4]

INTERNATIONAL DEVELOPMENTS

Fairness in Music Licensing Act is inconsistent with Berne Convention and TRIPs Agreement, WTO panel decides in case brought against United States by European Communities at request of Irish Performing Rights Organization

Relations between the United States and Ireland are generally excellent. In the entertainment business, though, little-noticed friction between the two has existed for several years. Copyright, in a word, is the source of that friction, as well as the manner in which the two nations interpret their copyright obligations to one another as members of the World Trade Organization.

In 1997, the United States complained to the WTO that Ireland had failed to update its copyright law as required by the WTO's TRIPs Agreement. According to the U.S., Irish law failed to prohibit the unauthorized rental of sound recordings, did not contain an anti-bootlegging provision, and contained inadequate criminal penalties for piracy (ELR 18:12:21). Though the United States continues to assert that significant amendments to Irish copyright law remain necessary (ELR 20:12:6), that particular case was settled to the U.S.'s satisfaction when Ireland passed special legislation in 1998 to increase penalties for copyright infringement (ELR 20:11:4).

Ireland is not the only country against which the United States has successfully filed complaints with the WTO, on behalf of this country's entertainment industry. In 1996, Japan amended its copyright law to provide retroactive copyright protection for American (and other non-Japanese) sound recordings, in response to complaints filed by the U.S. (and the European

Union) (ELR 18:9:4). And in 1997, the United States won a WTO dispute proceeding against Canada on account of restrictions that country had imposed on Sports Illustrated and other American magazines (ELR 19:2:6).

Just as Irish copyright law irritated American record companies, one feature of United States copyright law has long irritated Irish songwriters. That feature is section 110(5) of the Copyright Act which permits many restaurants, bars and retail stores to play music, using radios and television sets, without obtaining public performance licenses.

Until 1998, this exemption was known as the "homestyle receiver exemption," because it provided that licenses were not necessary for public performances by means of "a single receiving apparatus of a kind commonly used in private homes." The Irish Performing Rights Organization - Ireland's counterpart to ASCAP, BMI and SESAC - disliked even the pre-1998 version of this exemption. But when the Fairness in Music Licensing Act of 1998 amended section 110(5) to broaden the exemption (ELR 20:6:9), the Irish Performing Rights Organization became truly angry. No doubt believing that what's good for the goose is good for the gander, the Irish persuaded the European Communities to file a WTO complaint against the United States, attacking all of section 110(5) of the Copyright Act (ELR 20:11:4).

The E.C.'s complaint asserted that Articles 11 and 11bis of the Berne Convention give songwriters the exclusive right to authorize public performances of their songs, including performances of broadcasts "by loudspeaker." The WTO's TRIPs Agreement requires the United States to adhere to those Articles of the Berne Convention. But, the E.C. complained, on account of the public performance exemption found in section 110(5) of the Copyright Act, the United States fails to do so.

The United States responded to the E.C. complaint by arguing that Article 13 of the TRIPs Agreement permits exceptions from the exclusive rights granted by Berne under certain circumstances; and the U.S. argued that the public performance exemption granted by section 110(5) of the Copyright Act satisfies those circumstances.

A WTO dispute resolution panel has agreed in part with the E.C. and in part the U.S. But the panel has agreed with the E.C. - and not the U.S. - concerning the most significant part. The three-member panel - chaired by Mrs. Carmen Luz Guarda along with members Mr. Arumugamangalam V. Ganesan and Mr. Ian F. Sheppard - unanimously agreed that:

* the public performance exemption added by the Fairness in Music Licensing Act (the part now

codified at section 110(5)(B)) does not satisfy the requirements of Article 13 of TRIPs, and thus that exemption is "inconsistent" with Articles 11 and 11bis of the Berne Convention; and

* what remains of the "homestyle receiver exemption" (the part now codified at section 110(5)(A)) does satisfy the requirements of Article 13 of TRIPs, and thus that exemption is consistent with Articles 11 and 11bis of Berne.

Though this appears to be a split decision, the E.C. won the most significant part of the case because, as the panel interprets section 110(5) of the Copyright Act, very little remains of the "homestyle receiver exemption."

Article 13 of TRIPs - on which the United States rested its affirmative defense - permits nations to create exceptions to the exclusive rights required by Berne if, but only if, three circumstances exist. Exceptions must be confined to (1) "special cases" that (2) do not conflict with the "normal exploitation" of the work and (3) do not "unreasonably prejudice" the legitimate interests of the copyright owner.

The panel concluded that the Fairness in Music Licensing Act exempts so many restaurants, bars and retail stores that it simply is not confined to "special cases." The E.C. introduced evidence that as a result of that Act, 70% of American eating and drinking establishments and 45% of retail establishments no longer need public performance licenses to play amplified radio and television broadcasts. Moreover, the percentage of exempt businesses could be even greater, if large establishments limit the number of loudspeakers they use in each room and the size of their television screens.

The panel noted that the very purpose of Article 11bis of the Berne Convention was to give copyright owners the right to authorize the performance of their songs in the types of establishments that have been exempted by the Fairness in Music Licensing Act. "We fail to see," the panel reasoned, "how a law that exempts a major part of the users that were specifically intended to be covered by the provisions of Article 11bis[] could be considered as a special case in the sense of the first condition of Article 13 of the TRIPs Agreement."

Moreover, the panel determined that copyright owners would expect to be able to authorize the use of broadcasts of their songs by many of the establishments covered by the Fairness in Music Licensing Act exemption. Thus, it concluded that exemption granted by the Act "conflicts with the 'normal exploitation'" of their songs, in the manner prohibited by the second condition of Article 13 of TRIPs.

Finally, the panel concluded that the United States had failed to demonstrate that the Fairness in Music Licensing Act "does not unreasonably prejudice the legitimate interests" of copyright owners. On this issue, the E.C. and the U.S. had very different estimates concerning the impact of the exemption on royalties paid to E.C. copyright owners. The U.S. estimated that the exemption reduces royalties payable to the E.C. by about $500,000 a year, while the E.C. estimated that the reduction comes to some $5 million a year. Ultimately, the burden of proof on this issue fell on the U.S., and the panel decided that the U.S. had not met its burden.

For these reasons, the panel held the exemption created by the Fairness in Music Licensing Act (now codified at section 110(5)(B) of the Copyright Act) is inconsistent with Article 13 of TRIPs and Articles 11 and 11bis of Berne. And the panel has recommended that the WTO Dispute Settlement Body "request" that the United States bring section 110(5)(B) "into conformity with its obligations under the TRIPs Agreement."

On the other hand, the panel found that the "homestyle receiver exemption" (now codified at section 110(5)(A) of the Copyright Act) is consistent with TRIPs and Berne. It is, the panel concluded, because the "homestyle receiver exemption" is limited to a special case, does not conflict with the normal exploitation of the music it covers, and does not unreasonably prejudice the legitimate interests of owners of the copyright to that music. It reached these conclusions because of the very narrow class of musical compositions now covered by the "homestyle receiver exemption," as the panel interprets section 110(5).

The panel reasoned that the Fairness in Music Licensing Act covers all non-dramatic music, and thus the "homestyle receiver exemption" covers only dramatic music such as the "dramatic rendition of the music written for an opera, operetta, musical or other similar works." Moreover, the exemption only covers the performance of such music in restaurants, bars and retail stores by means of radio or television play. Thus, since virtually no such music is in fact performed by radio or television, the "homestyle receiver exemption" actually exempts little or nothing. That is why the panel concluded that the "homestyle receiver exemption" qualifies as a "special case" that does not conflict with the normal exploitation of the music it covers and does not unreasonably prejudice the legitimate interests of copyright owners.

The bottom line is that although the panel's decision appears at first to give each side a half-victory, the reality is that the E.U. won and the U.S. lost. The

U.S. may appeal the panel's decision to a WTO Appellate Body.

Editor's note: In this case, the United States is not of a single mind. The U.S. government defended the case, because a provision of United States law was under attack, and because if the United States refuses to bring section 110(5)(B) of the Copyright Act "into conformity," the WTO may ultimately sanction the U.S. in ways that are unrelated to the music industry or to the businesses of restaurants, bars and retail stores. On the other hand, U.S. songwriters and music publishers, as well as ASCAP, BMI and SESAC, are - and always have been - as opposed to the Fairness in Music Licensing Act as the Irish Performing Rights Organization and the E.C. Thus, these Americans can be excused if they view the panel decision as a loss for American restaurants, bars and retail stores - but not for themselves.

United States - Section 110(5) of the US Copyright Act, WTO WT/DS160/R (15 June 2000), available online at www.wto.org/english/tratop_e/dispu_e/distab_e.htm [ELR 22:2:7]

RECENT CASES

Federal laws requiring cable operators to scramble adult channels or show them only between 10 p.m. and 6 a.m. is unconstitutional, Supreme Court affirms, in case brought by Playboy

Playboy has won its fight with the government over the constitutionality of federal laws that required cable television operators to completely scramble adult channels or show them only between 10 p.m. and 6 a.m. By a slim 5-to-4 majority, the Supreme Court has agreed with Playboy, and with a lower court, that the statute and FCC regulation in question violated the First Amendment, because they were not shown to be the least restrictive means of achieving the government's objectives.

The statute challenged by Playboy was section 505 of the Telecommunications Act of 1996. It was enacted - without hearings or debate - as a result of an amendment offered on the Senate floor by California's Democratic Senator Dianne Feinstein in unholy alliance with Mississippi's Republican Senator Trent Lott.

The two offered their unstudied amendment to combat the supposedly ill effects of "signal bleed" - a term used to describe the ability of some cable subscribers to see and hear fragments of signals from channels to which they have not subscribed. As a result of signal bleed, Senators Feinstein and Lott surmised that children were able to see and hear fragments of Playboy programming, without their parents' knowledge or consent. Indeed, in a candid disclosure that it was Playboy she was after, Senator Feinstein openly stated on the floor of the Senate that her proposed amendment would apply to channels "such as the Playboy and Spice channels." (The Spice channel is owned by Playboy too.)

In response to the enactment of section 505, the FCC adopted a regulation that required cable operators to either scramble adult channels completely to eliminate signal bleed, or to show adult programming only between the hours of 10 p.m. and 6 a.m.

Playboy sued to have the statute and regulation declared unconstitutional. It argued that another section of the Telecommunications Act - section 504 - provided an adequate remedy for whatever signal bleed problem may exist. Section 504 requires cable operators to channel blocking devices available to subscribers free, if they request them. Such devices block unwanted channels entirely from homes that install them, and thus completely eliminate signal bleed.

Early in the case, Playboy won a temporary restraining order, barring enforcement of the then-new law and regulation (ELR 18:5:14). But the government won the next two rounds. A three-judge panel denied Playboy's request to extend the temporary restraining order into a preliminary injunction, and the Supreme Court affirmed without writing an opinion of its own (ELR 19:3:23).

At trial, however, Playboy staged a dramatic comeback. It proved that the Feinstein/Lott amendment was an unnecessary solution in search of a non-existent problem. Or, at a minimum, the Government failed to prove there was enough of a problem to justify so speech-restrictive a solution. In either event, a three-judge panel ruled in Playboy's favor, finding that section 505 of the FCC regulation were not the least restrictive means of accomplishing the government's objective of protecting children from signal-bleed exposure to adult programming. Instead, section 504 - the free channel blocking device section - was adequate to the task. And so, the panel declared section 505 and the FCC regulation unconstitutional.

The government appealed to the Supreme Court, but without success. In an opinion by Justice Anthony Kennedy, the Supreme Court affirmed the panel's decision. Justice Kennedy assumed that "many adults . . . would find the material [on the Playboy and Spice channels] highly offensive." He also acknowledged that "there are legitimate reasons for regulating it," because "the material comes unwanted into homes where children might see or hear it against parental wishes or consent." Even so, the First Amendment requires the government to regulate speech (when it is permitted to do so at all) in the least restrictive manner that will accomplish its objectives.

In this case, Justice Kennedy noted, "No one disputes that [section] 504, which requires cable operators to block undesired channels at individual households upon request, is narrowly tailored to the Government's goal of supporting parents who want those channels blocked." The government failed to prove that section 504 is not, by itself, sufficient to solve the problem of signal bleed. Indeed, Justice Kennedy said, the government had provided "little hard evidence of how widespread or how serious the problem of signal bleed is."

As a result, section 505 and the FCC regulation were not narrowly tailored, and thus were not constitutional.

Chief Justice Rehnquist and Justices Breyer, O'Connor and Scalia dissented.

United States v. Playboy Entertainment Group, 120 S.Ct. 1878, 2000 U.S.LEXIS 3427 (2000)[ELR 22:2:9]

Appellate courts disagree about whether Americans with Disabilities Act requires golf associations to allow disabled players to ride carts during tournament play; 9th Circuit says PGA must permit Casey Martin to ride cart; but 7th Circuit says USGA does not have to permit Ford Olinger to do so

The game of golf has been played the same worldwide, until recently. Now, as a result of conflicting rulings by federal appellate courts, professional tournaments in California (and elsewhere in the Ninth Circuit) may be played differently from tournaments in Illinois (and elsewhere in the Seventh Circuit). This is so because in the Ninth Circuit, the Americans with Disabilities Act requires tournament sponsors to permit disabled golfers to ride golf carts if they need to. But in the Seventh Circuit, the ADA imposes no such requirement.

The Ninth Circuit ruling affirms a lower court decision in favor of professional golfer Casey Martin (ELR 20:5:9). Martin sued the PGA as a result of its refusal to permit him to ride a cart while playing on the PGA-sponsored Nike Tour, even though he suffers from a congenital, degenerative circulatory disorder that causes him severe pain and atrophy in his lower right leg that makes it impossible for him to walk for long periods of time.

The Seventh Circuit ruling affirms a lower court decision against professional golfer Ford Olinger (ELR 21:8:14). Olinger sued the USGA as a result of its refusal to permit him to ride a cart while playing in the USGA-sponsored United States Open, even though he suffers from bilateral vascular necrosis, a degenerative condition that significantly impairs his ability to walk.

The ADA requires those who operate "places of public accommodation" to make "reasonable modifications" to their policies when "necessary" to permit those places to be used by the disabled, unless making modifications would "fundamentally alter the nature" of the accommodation.

The "Rules of Golf" are lengthy and detailed. They span 144 pages and cover such minutia as whether a player may ask an opponent how far away he thinks the green is. The Rules do not prohibit the use of golf carts, though they do permit tournament sponsors to set conditions for particular events, including conditions that require players to walk. Pursuant to that authority, the PGA prohibits the use of carts during its PGA and Nike Tournaments (though not in some others), and the USGA prohibits the use of carts during its U.S. Open.

In their lawsuits, Martin and Olinger both claimed: that golf courses are public accommodations; that permitting them to ride golf carts was a reasonable modification; that doing so was necessary for them to participate in tournaments; and that their use of carts would not fundamentally alter the nature of the tournaments in which they played. The PGA and USGA disagreed with each of these points

Judge William Canby, writing for the Ninth Circuit in Martin's case, held that golf courses - including those used for competitive tournaments - are places of "public accommodation." He held that Martin's use of a cart would be both "reasonable" and "necessary." And he held that Martin's use of a cart would not fundamentally alter the nature of the tournaments in which he played.

Judge Canby noted that Martin was not asking to use a special golf ball that would carry farther than others, nor was he asking to play a shorter course than his competitors. "The central competition in shot-making would be unaffected by Martin's [use of a cart]," the judge observed. "All that the cart does is permit Martin access to a type of competition in which he otherwise could not engage because of his disability. That is precisely the purpose of the ADA," he concluded.

In an opinion rendered just one day after the Ninth Circuit ruled in favor of Martin, the Seventh Circuit rejected Olinger's arguments - identical to Martin's though they were. The Seventh Circuit's opinion was written by Judge Terence Evans. After an introduction that includes much golf history and lore, Judge Evans held that "even assuming" golf courses used for the U.S. Open are places of public accommodation, "Mr. Olinger cannot prevail because we believe his use of a cart during the tournament would fundamentally alter the nature of the competition."

The evidence on this issue that Judge Evans found "to be particularly persuasive" was the testimony of CBS Sports' golf analyst, Ken Venturi. Venturi testified that when he won the U.S. Open back in 1964, the weather had hovered near 100 degrees and the humidity at 97 percent. He, and his opponents, walked the entire course, and he won "on the verge of collapse." If one of his competitors had been riding a cart, Venturi testified, the other player would have had a "tremendous advantage."

Judge Evans concluded his opinion with a compliment to Olinger. "Compared to most people who play golf," the judge said, "Olinger's skill level is beyond comprehension." The judge also acknowledged that "Surely a player like Olinger would gladly trade in his cart if he could walk a course without pain." But, the judge added, "the decision on whether the rules of the game should be adjusted to accommodate him is best left to those who hold the future of golf in trust. . . . [T]he law does not force the USGA to make the accommodation Olinger seeks. . . ."

Martin v. PGA Tour, Inc., 204 F.3d 994, 2000 U.S.App.LEXIS 3376 (9th Cir. 2000); *Olinger v. United States Golf Association*, 205 F.3d 1001, 2000 U.S.App.LEXIS 3431 (7th Cir. 2000)[ELR 22:2:10]

Delaware Supreme Court gives Disney shareholders second chance to properly plead claims in derivative suit triggered by Michael Ovitz's "extraordinarily lucrative" severance package

The corporate history of The Walt Disney Company is one that management can be proud of, for the most part. Longtime shareholders have done very well under the stewardship of Michael Eisner. Nonetheless, the company's history includes a few unfortunate chapters. Chief among these is the chapter devoted to Michael Ovitz's term as Disney's President. It was a shockingly short and expensive term, and that chapter, no doubt, is one the company would like to put behind it.

In fact, the Ovitz chapter appeared to have been closed in 1998, when the Delaware Chancery Court dismissed a shareholder derivative suit complaining about the enormous size of Ovitz's severance package (ELR 21:3:9). (The package - estimated to be worth $90 million when Ovitz first left the company (ELR 18:7:3) - had increased in value to some $140 million by the time the derivative suit was dismissed.)

Now, however, the Ovitz chapter has been reopened in ways that could become expensive for Michael Eisner and other company directors individually, though not for the company itself or even Michael Ovitz. The Delaware Supreme Court has partially reversed the dismissal of the case, and has sent the case back to the Chancery Court with instructions to give the suing shareholders the opportunity to file an amended complaint. (The shareholders did not appeal the dismissal of their case against Ovitz, so he has no personal exposure as a result of the reversal.)

In some ways, the Supreme Court's decision is surprising. It reverses several of its own earlier precedents dealing with the proper scope of its review of the Chancery Court's decision. On this issue it held that its review should be "de novo" rather than the more deferential "abuse of discretion" standard previously used. (This favored the shareholders; Disney's directors would have been better off with the old "abuse of discretion" standard.)

Moreover, in an opinion by Chief Justice Norman Veasey, the Supreme Court acknowledged that the shareholders' original complaint was properly dismissed because it failed to allege particular facts that would have created a reasonable doubt about whether the directors were protected by the "business judgment rule." Indeed, Chief Justice Veasey himself criticized the original complaint as "a pastiche of prolix invective" that was "permeated with conclusory allegations . . . and quotations from the media, mostly of an editorial nature (even including a cartoon)."

The Chief Justice also agreed with the Chancery Court that there was no doubt as to Eisner's "disinterest" when he approved Ovitz's employment agreement and later his "Non-Fault Termination." (In the context of a shareholder derivative lawsuit, Eisner's "disinterest" was good for him and bad for the shareholders.)

On the other hand, the Chief Justice said he could "understand why Disney stockholders would be upset with such an extraordinarily lucrative compensation agreement and termination payout awarded a company president who served for only a little over a year and who underperformed to the extent alleged."

The Supreme Court reversed the Chancery Court, because when that court dismissed the shareholders' lawsuit, it did so "with prejudice," which prevented the shareholders from amending their complaint to overcome its inadequacies. Chief Justice Veasey held that the dismissal should not have been "with prejudice," and that the shareholders should be given an opportunity to amend their complaint on two points - "if they are able to do so consistent with Chancery Rule 11" (which requires the shareholders' lawyers to certify that they have evidentiary support for the complaints' allegations).

First, the shareholders have been given the opportunity to amend their complaint to allege facts creating a reasonable doubt that the directors' approval of Ovitz's employment agreement was protected by the business judgment rule. Second, the shareholders have been given the opportunity to amend their complaint to allege facts creating a reasonable doubt that the directors' approval of Ovitz's "non-fault termination" was protected by the business judgment rule.

The reason that the complaint needs to create a "reasonable doubt" - rather than allege facts showing the board was not protected by the business judgment rule - is that the shareholders did not make a demand on the directors before they filed suit, as is usually required by Delaware law. As a general rule, unless such a demand is made, a derivative lawsuit will be dismissed, regardless of its merits. However, Delaware law does not require such a demand, if the complaint raises a doubt about whether the challenged transaction was the result of the directors' careful business judgment. In other words, Disney's shareholders must avoid the dismissal of their case for failure to make a demand on company directors, even before the shareholders may proceed to litigate the merits of their claims.

Brehm v. Eisner, 746 A.2d 244, 2000 Del.LEXIS 51 (Del. 2000)[ELR 22:2:11]

Disney wins dismissal of copyright infringement suit filed by artist who created gargoyle characters and story allegedly similar to those featured in studio's "Gargoyles" animated television series, because artist presented no evidence that Disney had access to his materials

The Walt Disney Company has won dismissal of a copyright infringement suit filed by artist Joseph Anthony Tomasini - one in which the artist claimed that Disney's animated television series "Gargoyles" was copied from his own gargoyle characters and story. Federal District Judge Sidney Stein granted Disney's motion for summary judgment, ruling that Tomasini failed to produce evidence that Disney had access to any of the artist's materials.

Tomasini thought otherwise, because in 1991, he hired as his agent a former Disney employee named Joseph Pellegrino. Though Pellegrino's experience with Disney including marketing animation projects, and though Pellegrino did in fact agree to be Tomasini's agent, Pelligrino dissolved his relationship with Tomasini after just a year, more than two years before Disney's series made it to the air.

Moreover - and more important - Pelligrino testified (during discovery) that he had never submitted Tomasini's material to Disney or to anyone else, because the artist had "failed to provide him with a portfolio of color artwork or with other descriptive materials that were necessary in order to present the property to potential licensees."

Likewise, the Disney executives who created the "Gargoyles" series testified that they never received any of Tomasini's materials from Pelligrino or anyone else. And Tomasini had no evidence to the contrary, "such as a postage receipt or an entry in the Disney submission log."

The only thing Tomasini had to offer to show Disney's access to his material was "conjecture and speculation," Judge Stein said. These though "will not suffice," the judge held.

Tomasini v. Walt Disney Co., 84 F.Supp.2d 516, 2000 U.S.Dist.LEXIS 1450 (S.D.N.Y. 2000)[ELR 22:2:12]

Portions of suit by Cynthia Maurizio alleging that she co-authored "First Wives Club" with Olivia Goldsmith are dismissed as time-barred; but court denies Goldsmith's motion to dismiss other Maurizio claims for infringement, denial of byline credit and misappropriation of ideas

Failure is an orphan, but success has many fathers, or - in the case of The First Wives Club - mothers.

The First Wives Club was a best-selling novel whose sole credited author was Olivia Goldsmith. Even before the novel was published, Paramount Pictures bought the movie rights - a fact that was duly reported in the New York Post.

The Post article prompted Cynthia Maurizio to file a lawsuit in New York state court in which she alleged that she had helped her former friend

Goldsmith write the novel. That lawsuit asserted claims for breach of contract, fraud, and the like. But after several years of motions and appeals, it was dismissed (without published opinions) on the grounds that those claims were preempted by the federal Copyright Act.

Maurizio then registered a copyright to a work entitled "Contributions to the Novel Entitled First Wives Club" - a work described as a "Detailed outline [and] two complete chapters." With registration certificate in hand, Maurizio proceeded to sue Goldsmith in federal court, seeking a declaration that Maurizio is a joint author of First Wives Club, or alternatively, for copyright infringement. The federal suit also contains claims for violation of the Lanham Act, apparently based on Maurizio's contention that she should have been given co-author credit in the novel's byline, and for misappropriation of "novel and original literary ideas."

Goldsmith again sought dismissal of Maurizio's lawsuit. But this time, Goldsmith has only been partially successful.

Federal District Judge Lawrence McKenna has dismissed Maurizio's joint authorship claim, on the grounds that it is barred by the Copyright Act's three-year statute of limitations. The judge rejected Maurizio's argument that the Copyright Act's statute of limitations was tolled while her case was pending in state court. The judge also ruled that the statute of limitations barred Maurizio's infringement claims for acts that took place more than three years before the federal case was filed.

On the other hand, Judge McKenna specifically ruled that "Maurizio may still recover for acts of infringement occurring within three years of the filing of this suit. . . ." This is so, the judge added, even though in the earlier state court case, Maurizio's lawyers argued that she "does not contend" that she owned a copyright in First Wives Club or that Goldsmith infringed any of Maurizio's rights under the Copyright Act. Judge McKenna explained that these were not admissions of fact; they were simply "legal arguments" that were not grounds for dismissing Maurizio's federal court copyright infringement claim.

Though Maurizio's joint-authorship claim was time-barred, Judge McKenna concluded that she could use the same evidence to support her Lanham Act claim. Moreover, the judge concluded that she had alleged facts which, if proved, would establish that Goldsmith once intended Maurizio to be joint author, and that Maurizio's chapters were copyrightable expression. Thus, the judge refused to dismiss Maurizio's Lanham Act claim, apparently on the theory that if she were a joint author, she would have been entitled to co-authorship credit in the novel's byline.

The judge also refused to dismiss Maurizio's claim for misappropriation of novel and original literary ideas. Since ideas are not protected by copyright, the judge reasoned, a claim for misappropriation of ideas is not preempted, as Goldsmith had argued.

Maurizio v. Goldsmith, 84 F.Supp.2d 455, 2000 U.S.Dist.LEXIS 788 (S.D.N.Y. 2000)[ELR 22:2:12]

Producer of movie "The Catcher" did not infringe copyright in screenplay, because producer was joint author; screenwriters' use of producer's treatment showed intent to create joint work, and treatment was separately copyrightable, federal court rules

Producer Yvette Hoffman has won the dismissal of a copyright infringement action filed against her by screenwriters Steven Bencich and Ron Friedman - a suit that arose out of Hoffman's production of a low-budget movie called "The Catcher."

Hoffman's relationship with Bencich and Friedman began as producer-screenwriter relationships often do. Hoffman gave Bencich and Friedman a treatment and asked them to write a screenplay from it. They did. But Hoffman put the project on "indefinite hold." A year and a half later though, she produced the movie, without paying the screenwriters.

Bencich and Friedman responded by registering a copyright in their screenplay and suing Hoffman for infringement. Hoffman's defense was that she was a joint author of the screenplay, and as such, was a co-owner of its copyright and did not infringe it, as a matter of law. Federal District Judge William Young agreed and has granted Hoffman's motion for summary judgment.

To be a joint work, each of the parties must have intended to create a joint work, and each must have contributed copyrightable subject matter.

In this case, Hoffman intended to create a jointly-authored screenplay, and the judge found that Bencich and Friedman did too. They did because they testified (by deposition) that they could not have written their screenplay without Hoffman's treatment, and they put Hoffman's address on their screenplay, thus "indicating their intention to share the work product," Judge Young concluded.

Judge Young also concluded that Hoffman's four-page treatment was a separately copyrightable contribution. Hoffman asserted that it was, and the screenwriters conceded the point.

Since Hoffman was a joint author of the screenplay, she was a co-owner of its copyright and thus not an infringer. The judge therefore dismissed the case.

Hoffman may not be out of the financial woods yet, however. In concluding his opinion, Judge Young noted that although each co-owner of a copyright has an independent right to use it, that right is "subject to a duty of accounting to the other co-owners for any profits." In this case, that means that Hoffman will have to account to the screenwriters "for any profits earned as a result of the copyright's use."

Bencich v. Hoffman, 84 F.Supp.2d 1053, 2000 U.S.Dist.LEXIS 4392 (D.Ariz. 2000)[ELR 22:2:13]

Arte Publico Press again wins dismissal of claim for damages in copyright infringement suit filed author Diane Chavez, because appellate court reaffirms earlier ruling that the state-owned book publisher is immune from suit in federal courts

Arte Publico Press has once again persuaded the Fifth Circuit Court of Appeals that it is immune from suit in federal courts, because it is owned by the University of Houston which is itself an agency of the state of Texas. The case in which Arte Publico Press asserted this defense is one in which it has been sued for copyright infringement by author Diane Chavez, on account of Arte Publico's allegedly unauthorized publication of one of her books. The immunity asserted by Arte Publico flows from the Eleventh Amendment, which protects states from suits in federal court.

Early in the case, the Fifth Circuit had ruled that states could waive their Eleventh Amendment immunity (ELR 17:8:17); and thus it looked for a while as though the merits of Chavez's infringement claims would actually be heard. However, the University of Houston sought review by the Supreme Court, which remanded the case to the Fifth Circuit for reconsideration (ELR 18:2:5). As a result of that reconsideration, the Fifth Circuit changed its mind and agreed with the University that it and Arte Publico are immune, at least from Chavez's claim for damages (ELR 20:5:17, 20:10:18).

Chavez then petitioned the full Fifth Circuit for a rehearing en banc. The full court did not grant her rehearing petition, but it did order the three-judge panel to reconsider its ruling against Chavez, apparently because she had asserted new arguments not previously considered by the panel.

In the meantime, in an unrelated case, another panel of the Fifth Circuit had also held that state agencies are immune from copyright infringement suits (ELR 21:11:8). Rather than simply cite that decision to dispose of Chavez's case, the panel assigned to hear her case determined that a "complete response is appropriate." That response reached the same conclusion, however.

Writing for the panel, Judge Edith Jones once again held that although Congress explicitly attempted to subject states to suit for copyright infringement - when it enacted the Copyright Remedy Clarification Act (ELR 12:10:20) - it simply did not have the Constitutional authority to do so. Chavez argued, "for the first time in this case," that Congress did have that authority under the "privileges or immunities clause of the Fourteenth Amendment." Judge Jones said that she found Chavez's arguments to be "interesting" but "unpersuasive."

As a result, Judge Jones remanded the case to the District Court "with instructions to Dismiss insofar as [the University of Houston and Arte Publico] are sued for money damages."

The Eleventh Amendment does not prevent states from being sued for injunctive relief in federal courts, so Chavez will be free to seek an injunction against Arte Publico's continued publication of her book, if it is still doing so and if she wants just that form of relief.

Chavez v. Arte Publico Press, 204 F.3d 601, 2000 U.S.App.LEXIS 2490 (5th Cir. 2000)[ELR 22:2:13]

Indian tribe is immune from movie producer's copyright infringement suit; but federal court has subject matter jurisdiction to hear producer's infringement claim against others, because it arose under federal law even though producer also asserts breach of contract claims, and because Indian tribe is not indispensable party, federal appellate court rules

The relationship between movie producer Debra Bassett and the Mashantucket Pequot Indian Tribe began simply enough. It involved nothing more complicated than a letter agreement by which the Tribe commissioned Bassett to produce a movie about the Pequot War of 1636-1638.

The project was to proceed in two stages. First, Bassett was to develop a screenplay, for which she was to be compensated according to an agreed schedule.

And second, "at such time" as the Tribe approved the screenplay, Bassett was to have exclusive rights to produce the movie for exhibition at the Pequot Museum.

Bassett quickly wrote and submitted a screenplay to the Tribe, but the rest of the project did not proceed as Bassett expected. Instead, the Tribe sent Bassett a notice terminating their agreement, on the grounds that she had not performed the contract as the Tribe had anticipated.

Despite terminating Bassett, the Tribe continued to develop the movie, and in fact finished it about a year later. According to Bassett, the movie, entitled "The Witness," was produced using her script - in which she claimed a copyright - without a license to do so. Bassett responded by suing the Tribe, its Museum, and two Museum officials for copyright infringement, breach of contract, and various state law torts.

In the beginning, Bassett had no more success in court than she had with the Tribe itself. A federal District Court dismissed her case on the grounds that her infringement claim was "merely incidental" to her contract claim, the Tribe was immune from suit, and the Museum and its officials could not be sued because the Tribe was an indispensable party.

On appeal, however, Bassett has salvaged part of her case - and has made new copyright law in doing so. Actually, she successfully persuaded the Court of Appeals to reinstate old law by setting aside a change in the law it had adopted in 1992.

The copyright issue involved the question of whether the District Court had "subject matter" jurisdiction to hear Bassett's infringement claim. While federal courts have explicit - even exclusive - jurisdiction to hear cases that "arise under" the Copyright Act, they do not have subject matter jurisdiction to hear contract claims, even if the contract in dispute is a copyright licensing agreement.

It is rarely clear whether a dispute is really a copyright infringement claim or one for breach of a licensing agreement. Indeed, Nimmer on Copyright says this is "among the knottiest procedural problems in copyright jurisprudence." For decades, the leading authority on this issue was the case of T.B. Harms Co. v. Eliscu, 339 F.2d 823 (2d Cir. 1964).

Then, in 1992, in Schoenberg v. Shapolsky Publishers (ELR 14:11:5), the Second Circuit Court of Appeals adopted a new, more complicated, three-part test for deciding whether a case really involved a copyright or just a contract dispute. The Schoenberg test has been used many times in entertainment (as well as other) cases (ELR 15:12:21, 16:1:34, 18:4:15). But the Schoenberg test has been widely criticized. And in his opinion for the Second Circuit reversing the dismissal of Bassett's lawsuit, Judge Pierre Leval acknowledged flat-out that "the Schoenberg test is unworkable." As a result, after circulating his opinion among all the judges of the Second Circuit, Judge Leval announced that T.B. Harms is once again the case that furnishes the test by which copyright and contract claims will be distinguished.

This meant that Bassett's case really is a copyright case, despite her additional contract claims, because she alleged that the defendants used her copyrighted script to produce their movie, and because she sought injunctive relief which is relief that is provided by the Copyright Act. This meant the District Court does have subject matter jurisdiction to hear Bassett's infringement claims.

Exactly whom those claims may be asserted against is another matter however. Bassett sued the Mashantucket Pequot Tribe itself, along with its

Museum and Museum administrators. The Tribe though is immune from suit in federal courts, for two reasons. First, nothing in the Copyright Act "'purports to subject tribes to the jurisdiction of federal courts in civil actions' brought by private parties." And second, "congressional abrogation of tribal immunity cannot be implied," not even in connection with off-reservation commercial activities.

Thus, Judge Leval affirmed the dismissal of Bassett's case against the Tribe, though not against the Museum or its administrators. The judge explained that if it turns out the Museum is "an agency of the Tribe," it may benefit from the Tribe's immunity. If so, he advised Bassett to amend her complaint to seek injunctive relief against the Museum's administrators, rather than against the Museum itself.

Finally, Judge Leval ruled that the case may proceed against the Museum and its administrators, even though the Tribe has been dismissed, because the Tribe is not an indispensable party, as the District Court had mistakenly ruled.

Bassett v. Mashantucket Pequot Tribe, 204 F.3d 343, 2000 U.S.App.LEXIS 2879 (2nd Cir. 2000)[ELR 22:2:14]

Cardtoons may pursue defamation and interference with contract claims against Major League Baseball Players Association arising out of cease-and-desist letter it sent to printer of parody trading cards; federal appeals court, ruling en banc, holds that private threats of litigation are not immune under First Amendment, because they do not involve a petition to the government

If the lawsuit between the Major League Baseball Players Association and a trading card publisher named Cardtoons were a baseball or card game, it would be one of the most exciting ever played, because the lead has changed hands at least four times.

The lawsuit began as an interesting right of publicity lawsuit - one that tested the extent to which parody is a defense to claims based on the unauthorized commercial use of celebrity names and likenesses. As such, the case was of interest to those who represent celebrities, and those who make and sell and parody merchandise.

The case has morphed into something far more significant however. Now it concerns the extent to which those who send cease-and-desist letters can be held liable for doing so, if it turns out that courts later decide they didn't in fact have the rights asserted in those letters. This is an important issue for all entertainment and intellectual property lawyers, regardless of who they represent. And that importance cannot be exaggerated, because of the ultimate result.

The Tenth Circuit Court of Appeals, sitting en banc, has held that those who send cease-and-desist letters may be held liable for damages caused by such letters. Writing on behalf of a 7-to-3 majority, Judge Paul Kelly has ruled that private threats of litigation are not immune under the First Amendment, because they do not involve petitions to the government. In so ruling, the 10th Circuit majority reversed an earlier ruling to the contrary by a 3-judge panel, which had affirmed a District Court decision that those who send cease-and-desist letters are immune from potential liability, so long as they had reasonable cause to believe their rights had been violated.

In order to convey the significance of this ruling, it's useful to recap how the case began, so that readers can appreciate what an ordinary thing the Players Association did when it sent the offending cease-and-desist letter.

The Players Association is the licensing agent for its members. It learned that Cardtoons intended to publish parody trading cards featuring recognizable caricatures of major league baseball players on the front and humorous comments that ridiculed them on the back. In response, the Association sent two cease-and-desist letters asserting that Cardtoons' cards would violate its members' rights under the Lanham Act and state right of publicity law. One of the Players Association's letters was sent to Cardtoons itself, and another was sent to Cardtoons' printer.

The letter to the printer had its intended effect. Even though the Players Association had not sued it, the printer decided not to print the cards. Cardtoons was not intimidated, however. Instead, the letter to Cardtoons, and its printer's decision not to print its cards, provoked Cardtoons into suing the Players Association for declaratory relief.

The Players Association, rather than Cardtoons, took an early lead. A federal magistrate concluded that the cards would have violated the players' rights, and a District Court judge initially adopted that conclusion.

Thereafter, however, the United States Supreme Court decided the "2 Live Crew" parody case (ELR

15:12:18); and that eventually put Cardtoons in the lead. Though the "2 Live Crew" case involved copyright rather than right of publicity parody, the District Judge in the Cardtoons case thought the "2 Live Crew" decision was instructive. The District Judge therefore set aside his earlier ruling in favor of the Players Association and instead entered judgment for Cardtoons. Moreover, that ruling was affirmed on appeal (ELR 19:1:7).

Emboldened by its success, Cardtoons returned to the District Court where it sought to recover damages against the Players Association for two things: for interfering with Cardtoons' contract with its printer; and for defamation on account of the cease-and-desist letters' assertion that Cardtoons would be violating the law by making and selling its cards.

However, the lead changed hands again, because Cardtoons lost its claim for damages. In an unpublished ruling, the District Court held that the Players Association was immune from liability, because its cease-and-desist letters were sent in connection with contemplated litigation. And that decision was affirmed by a three-judge panel of the 10th Circuit (ELR 21:7:10).

Cardtoons then petitioned the 10th Circuit for a rehearing en banc. Its petition was granted, and Cardtoons has taken the lead once again, as a result of Judge Kelly's decision for the court's majority.

This case may not be over yet. In his dissenting opinion, Judge Carlos Lucero made a persuasive point. He noted that "Today's decision ignores the reality of intellectual property law, in which the enforcement of legal rights, and thus the invocation of the litigation process, is customarily commenced by a cease-and-desist letter. Consequently, the practical result of the majority's holding will be to force parties seeking to prevent the wrongful infringement of their intellectual property rights to ambush infringers with lawsuits or risk having to defend against retaliatory tort claims." Judge Lucero was the author of the three-judge panel decision overruled by the court's majority. In rebuttal, Judge Kelly didn't deny the merits of Judge Lucero's dissenting argument. Judge Kelly merely replied that "While there are many persuasive policy arguments in favor of granting immunity to private threats of litigation . . . [s]uch arguments are best addressed to the state legislative bodies which can craft state law accordingly."

Editor's note: The ultimate victor in this phase of the case has yet to be determined. While the Players Association will have to incur the expense of defending itself against Cardtoons' defamation and interference with contract claims, the Players Association may yet prevail. Indeed, it seems it should. To prevail on its defamation claim, Cardtoons will have to establish that the Players Association was at least negligent in sending a cease-and-desist letter to the printer asserting that Cardtoons' cards would violate the publicity rights of Major League Baseball players. At the time that letter was sent, however, the Players Association was right: two federal judges so ruled; and the Supreme Court's decision in the "2 Live Crew" case changing the law wasn't handed down until after the letter was sent. It hardly seems negligent to fail to anticipate a subsequent copyright ruling and its even later application by analogy to the law of the right of publicity. Likewise, it seems that the letter did not interfere with Cardtoons' contract with its printer, at the time the letter was sent. At that time, the law prohibited Cardtoons' sale of its cards; and once the law changed and Cardtoons won that phase of the case, the printer was free to perform the work called for in Cardtoons' contract.

Cardtoons v. Major League Baseball Players Association, 208 F.3d 885, 2000 U.S.App.LEXIS 6427 (10th Cir. 2000)[ELR 22:2:15]

Public radio station did not violate First Amendment rights of Ku Klux Klan by declining its offer to underwrite NPR's "All Things Considered," federal appeals court affirms

Public broadcasters will breathe a sigh of relief, no doubt, because one of them has received judicial approval to do what seems at first to be a surprising thing: decline an underwriting offer.

The broadcaster who did this - and got sued for doing so - was KWMU, the public radio station owned by the University of Missouri. The offer it rejected came from the Knights of the Ku Klux Klan, which wanted to underwrite NPR's "All Things Considered."

If KWMU had accepted the KKK's money, the station would have been required by law to acknowledge the donation and its source. Moreover, the KWMU typically enhanced such acknowledgements by broadcasting a 15-second message, often drafted by the underwriter. In this case, the KKK had written the message it wanted the station to broadcast - one that touted the KKK as "a White Christian organization, standing up for the rights and values of White Christians since 1865."

KWMU figured that if it accepted the KKK's money and broadcast the legally-required acknowledgement, the University of Missouri would have lost $2 million a year in donations from others, and that student enrollments would have declined at a cost of another $3 million a year. That's why KWMU declined the KKK's underwriting offer.

The KKK sued, alleging that its First Amendment free speech rights had been violated by the station's decision. A federal District Court disagreed, however, and granted the University of Missouri's motion for summary judgment (ELR 21:1:14). On appeal, the University has succeeded again.

In an opinion by Judge Theodore McMillian, the Court of Appeals has held that KWMU's airwaves are not a public forum, and thus the station's decision to decline the KKK's offer was not subject to First Amendment analysis, even though declining its offer meant that the station didn't have to broadcast the KKK's message.

Judge McMillian rejected the KKK's argument that a distinction should be made between KWMU's own programming, which the KKK acknowledged may be exempt from public forum analysis, and announcements made on behalf of underwriters, which the KKK said were not exempt.

Instead, the judge quoted the Supreme Court's decision in Arkansas Educational Television v. Forbes (ELR 20:2:7) for the proposition that "public broadcasting as a general matter does not lend itself to scrutiny under the forum doctrine." And he held that the KKK's First Amendment rights had not been violated.

Knights of the Ku Klux Klan v. Curators of the University of Missouri, 203 F.3d 1085, 2000 U.S.App.LEXIS 2274 (8th Cir. 2000)[ELR 22:2:16]

In suit by Yoko Ono Lennon against author of "The Last Days of John Lennon," court dismisses, without prejudice, Lennon's copyright infringement claims based on author's alleged use of as-yet unidentified and unregistered photographs, and Lennon's fraud on Copyright Office claim based on author's application to register copyright to photo Ono has already registered

Yoko Ono Lennon is locked in a bitter legal dispute with Frederic Seaman, the author The Last Days of John Lennon: A Personal Memoir. The dispute involves photographs Seaman shot of Ono and Lennon and their son Sean while he was employed in the Lennon household during the late 1970s and early '80s. At issue is Seaman's continued possession and use of those photos, including their publication in The Last

Days and Seaman's display of them on television programs.

According to Ono, she owns the copyrights to all of the photos shot by Seaman, so his use of them amounts to infringement. She also asserts that Seaman's attempt to register his own copyright claim to one of the photos is a fraud on the Copyright Office.

These and other claims were asserted in a complaint in federal court, which Seaman sought to have dismissed in the early stages of the case. Indeed, he has had some success. Judge Leonard Sands dismissed a number of Ono's non-copyright claims in his first published opinion in this case (ELR 21:10:15). Now, Judge Sands has dismissed two of her copyright claims as well, though he did so without prejudice.

One of these was Ono's infringement claim based on photographs now in Seaman's possession, and whose copyrights Ono has not yet registered. Indeed, she alleges that she doesn't even know how to identify all these photographs, because she hasn't seen them yet. Judge Sand dismissed this claim, because registration is a prerequisite to the filing of a copyright infringement action. And though there are several statutory exceptions to the registration requirement, not being able to identify the particular works at issue is not one of them.

Ono has registered her claim to copyright in a photograph of Lennon and their son on the beach in Bermuda. Seaman also has filed an application, seeking to register his claim to copyright in that same photo. Seaman's application is what triggered Ono's "fraud on the Copyright Office" claim. But Judge Sand has dismissed it as "not ripe," because the Copyright Office has not yet registered Seaman's application (and presumably, may not).

Judge Sand concluded his opinion by emphasizing that Ono "may amend her complaint . . . to include infringement allegations regarding items she might discover in the future and to include an allegation of fraud on the Copyright Office if it becomes ripe for decision." For now, however, the case will proceed only on Ono's infringement claims concerning photographs that appeared in Seaman's book, those he displayed on television, and others she knows to be in his possession.

Lennon v. Seaman, 84 F.Supp.2d 522, 2000 U.S.Dist.LEXIS 1505 (S.D.N.Y. 2000)[ELR 22:2:17]

Publication of unauthorized Beanie Babies guidebooks is enjoined, on copyright and trademark grounds; court rejects publisher's First Amendment and fair use defenses

"Beanie Babies" are almost an industry in themselves. Not only are Beanie Babies the centerpiece of Ty, Inc.'s business, several other companies have created satellite businesses to service those who buy, sell and collect these "extraordinarily popular" plush toys.

One such company is Penguin Putnam, USA. It publishes guidebooks entitled For the Love of Beanie Babies and Beanie Babies Collector's Guide. These books contain an "historical essay" about Beanie Babies as well as detailed "biographical" information about the more than 200 Beanie Babies Ty has sold over the years, including a good-sized color photograph of each.

Penguin is not the only company that publishes and distributes Beanie Babies guidebooks. Indeed, Ty itself has licensed six other publishers to sell books that compete with Penguin's. And therein lies the rub, because Penguin has no license from Ty; its books are unauthorized.

Ty's licensees complained to Ty about Penguin's books, and Ty did what others in similar situations have done before (ELR 20:8:6, 20:8:7). It sued for copyright and trademark infringement. Moreover, it quickly sought and has been awarded a preliminary injunction barring Penguin from continuing to publish its books.

Penguin asserted two major defenses to Ty's copyright claim: one based on the First Amendment, and the other on the fair use doctrine. Federal District Judge James Zagel rejected them both.

Penguin argued the First Amendment only as a defense to Ty's request for injunctive relief, not as a defense to Ty's damages claim. That enabled Ty to argue that an injunction would be an unconstitutional "prior restraint." But Judge Zagel was not persuaded, because, he said, the fair use doctrine provides "adequate protection" for Penguin's right to criticize and comment on Beanie Babies.

Unfortunately for Penguin, its fair use argument faired no better. Judge Zagel determined that Penguin's use of Beanie Babies photos was a commercial, non-transformative use. The judge held that Beanie Babies are creative. The photos in Penguin's books were the most prominent feature of every page, though verbal descriptions or generalized drawings would have been sufficient to permit comment on the dolls. And Penguin's books harmed the market for books published by Ty's licensees. Thus, all four fair use factors favored Ty rather than Penguin.

In connection with Ty's trademark claim, Judge Zagel found that a "significant number of consumers might confuse [Penguin's] books with the guides . . . licensed by Ty."

For these reasons, the judge concluded that there is a likelihood Ty will prevail in the case, and thus he granted Ty's motion for a preliminary injunction.

Ty, Inc. v. Publications International, Ltd., 81 F.Supp.2d 899, 2000 U.S.Dist.LEXIS 611 (N.D.Ill. 2000)[ELR 22:2:17]

Photographer's conversion and consumer fraud claims against "The Advocate," alleging unauthorized use of his photo of gay politician Harvey Milk, are dismissed by federal judge; but copyright infringement claim is not dismissed even though photographer did not register his copyright until 21 years after its first publication

In 1998, The Advocate, a national gay and lesbian periodical, published Jerome Pritikin's photograph of gay San Francisco politician Harvey Milk. The photo was first published in 1977 by The San Francisco Examiner, before Milk's assassination, and then again in 1982 on the cover of Randy Shilt's book The Mayor of Castro Street: The Life and Times of Harvey Milk.

For reasons not yet explained in print, The Advocate did not get a license from Pritikin before publishing his photograph. Worse yet, the photo was published adjacent to and as part of an Advocate Poll sponsored by automaker Saab.

Not surprisingly, Pritikin sued. But instead of asserting a single simple claim for copyright infringement, he asserted three claims: one for copyright infringement; another for conversion under Illinois state law; and a third under the Illinois Consumer Fraud and Deceptive Business Practices Act. These state law claims gave The Advocate grounds for a pre-trial motion to dismiss; and just for good measure, The Advocate threw in a motion to dismiss the copyright claim too.

Federal District Judge Elaine Bucklo has granted The Advocate's motion to dismiss Pritikin's state law claims, but has denied its motion to dismiss the copyright claim.

The judge ruled that Pritikin's state law claim for conversion was preempted by the Copyright Act, because the photographer's right under Illinois conversion law "was violated, if it was, by the mere unauthorized reproduction of the photograph."

Judge Bucklo also dismissed Pritikin's claim under the Illinois Consumer Fraud and Deceptive Practices Act, because Pritikin did not allege that his photograph is associated with him in the public mind. Thus its unauthorized publication could not have caused him any damage - except for The Advocate's failure to pay a license fee which is damage covered by the Copyright Act but not by the Illinois act.

The Advocate based its motion to dismiss Pritikin's copyright infringement claim on the fact that he did not register his copyright in the photo until after The Advocate had published it - 21 years after it had first been published in The San Francisco Chronicle and 16 years after it was published on the cover of The Mayor of Castro Street.

The Copyright Act of 1909 - which was in effect when the photo was first published - did require "prompt" registration of copyrights. But 60 years before The Advocate's motion was ruled upon, the United States Supreme Court held, in Washington Publishing Co. v. Pearson, 306 U.S. 30 (1939), that failure to register promptly does not result in the loss of copyright protection. Judge Bucklo noted that the Supreme Court's decision in that case has been followed more recently by other lower courts. And she followed it again in this case by denying The Advocate's motion to dismiss Pritikin's copyright claim.

Pritikin v. Liberation Publications, Inc., 83 F.Supp.2d 920, 1999 U.S.Dist.LEXIS 19405 (N.D.Ill. 1999)[ELR 22:2:18]

Appeals court affirms dismissal of defamation, privacy and emotional distress suit filed against Oklahoma City radio station by Seattle man whose phone number was broadcast by radio show hosts who mistakenly thought he was selling t-shirts bearing offensive slogans about Murrah Building bombing; Seattle man may even have to pay radio station's litigation costs

Damages from the 1995 bombing of the Murrah Building in Oklahoma City continue to pile up - some inflicted on innocent victims living as far away as Seattle. Kenneth Zeran is one such victim. His telephone number was broadcast by the hosts of Oklahoma City radio station KRXO's "Shannon and Spinozi" show, because they mistakenly believed that Zeran was selling t-shirts bearing offensive slogans about the bombing. They thought so simply because a listener had forwarded to them a hoax America Online posting that included Zeran's phone number.

At Shannon and Spinozi's urging, listeners called Zeran's number and expressed their displeasure - with what they mistakenly thought he was doing - in very unpleasant and even threatening language. Not surprisingly, Zeran was badly upset, enough that he had to see a doctor who prescribed an anti-anxiety drug for him. Zeran also was upset enough to sue KRXO for defamation, privacy and infliction of emotional distress.

Unfortunately for Zeran, his case was dismissed by federal District Judge Ralph Thompson, in response to the station's motion for summary judgment (ELR 20:11:16). Though Judge Thompson reluctantly concluded that Shannon and Spinozi's behavior was not "legally actionable," the judge decided that their behavior was "sufficiently distasteful" to warrant his denial of the station's application for litigation costs.

Zeran appealed. But in an opinion by Judge Dale Kimball, the Court of Appeals has done nothing to alleviate Zeran's pain, and may even have caused him more. It affirmed KRXO's victory, and it ordered Judge Thompson to reconsider the station's request for costs. Judge Kimball affirmed the dismissal of Zeran's defamation claim, on the grounds that one doctor visit and one prescription are insufficient special damages to support such a claim, and on the grounds that Zeran's reputation had not been injured because Shannon and Spinozi had not broadcast his name.

Judge Kimball affirmed the dismissal of Zeran's privacy claim, because there was no showing that Shannon and Spinozi knew the AOL posting was false or had acted "recklessly" in behaving as though it were true.

Finally, Judge Kimball affirmed the dismissal of Zeran's infliction of emotional distress claim, because Shannon and Spinozi had not acted in an "extreme and outrageous way" towards Zeran, nor had Zeran suffered "severe emotional distress."

As a general rule, a prevailing party is entitled to recover its litigation costs (even if not attorneys' fees). Federal law permits judges to deny such costs under certain circumstances. But a judge's "own view" of the prevailing party's conduct "should play no part" in a judge's "decision whether to override the presumption that the prevailing party receives costs," Judge Kimball ruled. Thus, Judge Thompson abused his discretion when he denied KRXO's application for costs based simply on his own view that Shannon and Spinozi's conduct had been "distasteful." And therefore, Judge Thompson was ordered to reconsider the station's request for costs.

Zeran v. Diamond Broadcasting, Inc., 203 F.3d 714, 2000 U.S.App.LEXIS 1144 (10th Cir. 2000)[ELR 22:2:19]

Trial court properly ordered arbitration of defamation and fraud claims asserted by teenage guest on Sally Jesse Raphael show, Ohio appellate court affirms

The published record doesn't reflect why, exactly, Heather Cross thought she'd been invited to appear on the Sally Jesse Raphael show. Heather is an Ohio teenager, and the Sally Jesse Raphael show is hardly known for showcasing the praise-worthy accomplishments of high school students.

The record does show however that Heather accepted the invitation, that she and her mother signed

a document authorizing Heather to fly alone to New York City where the show is taped, and that when Heather got on camera, she was deeply disappointed.
That day's Sally Jesse Raphael show was about "Teen Girl Bullies," and another teen guest accused Heather of being one. This, Heather said, subjected her to "ridicule, hatred and contempt." And she and her mother did what people often do under these circumstances. They sued. In a case filed in Ohio state court, Heather and her mother sought to recover damages for defamation and fraud from Sally Jesse and her producers (as well as the other teenager and her mother).

Reactions like this are not unanticipated by Sally Jesse's producers. And so, the document that Heather and her mother signed - authorizing Heather to fly to New York alone - also contained other provisions. One of them provided that any disputes arising out of

Heather's appearance on the show would be resolved by arbitration in a proceeding in New York City.

Thus Sally Jesse and her producers responded to Heather's suit by immediately seeking, and successfully obtaining, a stay of the Ohio lawsuit pending arbitration. Heather and her mother were not pleased. As Ohio residents, they may not have wanted to travel to New York for the hearing. Or they may have thought that their chances of winning a jackpot recovery were less from a New York arbitrator than from an Ohio jury. Whatever their reasons, they appealed. But not successfully.

The Court of Appeals of Ohio has affirmed the trial court's order. In an opinion by Judge Judith Christley, the appellate court ruled that: a parent has the authority to bind his or her child to an arbitration agreement; Heather and her mother had offered no evidence that their agreement to arbitrate disputes was unconscionable; and that even though they said they were told the document they signed was merely a consent for Heather to fly alone, nothing prevented them from reading the document for themselves, and thus their agreement to arbitrate had not been fraudulently obtained.

Cross v. Carnes, 724 N.E.2d 828, 1998 OhioApp.LEXIS 6293 (Ohio App. 1998)[ELR 22:2:19]

Member of limited liability company formed to seek NHL expansion franchise did not breach company's operating agreement by obtaining Columbus Blue Jackets franchise on behalf of separate partnership, Ohio appellate court affirms, because limited liability company agreement permitted members to compete with one another

The Columbus Blue Jackets won't play its first-ever National Hockey League game until October 7, 2000. The team, however, has already been the object of its first lawsuit.

The actual facts of the case are complicated, though the essence of the dispute is not. In brief, Lamar Hunt and John McConnell - two of the owners of Major League Soccer's Columbus Crew - got together with others to form a limited liability company called

Columbus Hockey Limited for the purpose of seeking an NHL expansion franchise.

At first, they hoped that the construction of a new hockey arena would be financed with a county sales tax increase; but voters defeated that plan. Then an insurance company offered to build an arena and lease it to the team. But Hunt concluded that the proposed lease would result in the team's "losing millions." McConnell, on the other hand, was willing to accept the insurance company's proposed lease.

Unfortunately, all this happened on the eve of the NHL's deadline for franchise applications. So rather than McConnell debating Hunt on the merits of the lease within the framework of Columbus Hockey Limited, McConnell formed another company - a limited partnership named Colhoc Limited Partnership - and applied for the expansion franchise on its behalf.

Hunt of course was not a partner in Colhoc. And when Colhoc got the franchise, litigation was the result.

Columbus Hockey's operating agreement provided that the purpose of the company was "to invest in and operate a franchise in the National Hockey League." As a general rule, a limited liability company imposes fiduciary duties on its members which "[n]ormally . . . would preclude direct competition between members of the company." Hunt took the position that these principles meant that McConnell breached the operating agreement and his fiduciary duties when, in direct competition with Columbus Hockey Limited, he sought and obtained the Columbus NHL franchise on behalf of Colhoc Limited Partnership.

Hunt's argument may have had merit, in an ordinary case. In this case, however, it didn't, because Columbus Hockey's operating agreement contained a clause that explicitly said: "Members May Compete. Members shall not in any way be prohibited from . . . owning an interest in any other business venture of any nature, including any venture which might be competitive with the business of the Company."

In an opinion by Judge Gary Tyack, the Ohio Court of Appeals has affirmed a lower court ruling that this provision means that McConnell's actions did not breach the Columbus Hockey operating agreement, nor did McConnell's actions violate his fiduciary duties to other members of the Columbus Hockey limited liability company.

McConnell v. Hunt Sports Enterprises, 725 N.E.2d 1193, 1999 OhioApp.LEXIS 3998 (Ohio App. 1999)[ELR 22:2:20]

New York City street musician loses bid for preliminary injunction barring enforcement of City's new noise regulations, though City is enjoined from using one arbitrary sound measurement practice

Robert Turley spends his workweek doing two things. He plays an electric treble bass guitar on the streets of New York City, and he sues the City about its enforcement of noise control regulations, as they apply to him and other street musicians.

Turley has enjoyed some success in court (ELR 20:4:31) - enough that New York has amended its regulations to allow musicians to play somewhat louder than before. But Turley failed in his attempt to take away the City's discretion to set maximum noise levels. Last year, a federal appellate court ruled that the City's methods are not arbitrary and capricious just because the particular level it had earlier set was "wrong." Instead, the appellate court decided that "If the City gets it wrong again when it establishes a new standard, then Turley's remedy is to bring another 'as applied' challenge to the new standard." (ELR 21:3:17)

When the City did set its new standard, Turley took the appellate court's advice. He sued the City again, alleging that the new decibel limitation - though more permissive than the old - still violates his First Amendment rights for three reasons: because the limit is still too low; because the City is not measuring noise properly; and because corporate-sponsored performances are permitted to play more loudly than he. Turley also complained that Fifth Avenue businesses are given preferential treatment for permits to play at 5th Avenue and 58th Street.

Judge Shira Scheindlin has denied most of Turley's motion for a preliminary injunction. Before doing so, however, she witnessed a Turley performance at Broadway and 46th Street, in front of the Marriott Hotel (accompanied by the parties' lawyers and experts). What she heard supported the City's position, rather than Turley's.

Turley would like to play more loudly than the 85-decibels-at-10 feet now permitted. He would in fact like the limit to be no less than 95-decibels-at-15-feet. But Judge Scheindlin found that while standing 10 and 15 feet from Turley, she was able to hear to hear his music "clearly" when he played at the 85-decibels-at-10 feet level. Likewise, when he played at the 95-decibels-at-15-feet level, she found his music to be "loud." As a result, she found it unlikely that Turley would show that the City's new loudness regulation is unduly restrictive, and she denied his request for a preliminary injunction for that reason.

Judge Scheindlin did, however, agree with Turley that the City's method of measuring surrounding street noise was arbitrary in one respect. Inspectors used their "unfettered discretion" in deciding which auto, bus and other noises to exclude from their measurements, when comparing the loudness of a street musician's performance with that of other sounds. The comparison matters, because no matter how loudly street musicians play, they are cited for violating the law only if they play at least 10 decibels above ambient street noise. The judge concluded that it was arbitrary to give inspectors such discretion. So she enjoined the City from excluding any extraneous sounds while measuring ambient sound levels (until the City publishes criteria that inspectors are to use when deciding which sounds to exclude).

Turley also sought to enjoin the City's practice of authorizing louder performances by Time Warner for its "musical extravaganzas" and JVC for its concerts than those authorized for his own performances. The City explained that while Turley usually attracts 10 to 15 listeners, Time Warner and JVC performances attract hundreds and even thousands of listeners where higher decibel levels are necessary in order for all to hear. The judge concluded that "This appears to be a credible and reasonable explanation for the differences in decibel limits set for corporate-sponsored events. . ." And therefore she declined to enjoin the City from continuing to authorize louder performances for those events than for Turley's performances.

Finally, Judge Scheindlin rejected Turley's request that the City be enjoined from granting Fifth Avenue businesses preferential treatment in the processing of their permits. She did so, because the City denied that those businesses had received such treatment, and Turley failed to show they had.

Turley v. Giuliani, 86 F.Supp.2d 291, 2000 U.S.Dist.LEXIS 1514 (S.D.N.Y. 2000)[ELR 22:2:21]

Holders of $234 million judgment against Russia fail in bid to execute on Russian art and cultural objects being exhibited in United States; objects are immune from seizure, federal District Court rules

Nina, Agnes and Lee Magness obtained a $234 million judgment against the Russian Federation, the Russian Ministry of Culture and the Russian State Diamond Fund. They got the judgment by default, when the Russians defaulted in their case. But collecting the judgment may prove to be difficult.

Earlier this year, the Magnesses were blessed with what, at first, seemed to be remarkable good luck. Assets belonging to the Russians they had sued were on display in Mobile, Alabama, as part of the Nicholas and Alexandra Exhibit. Moreover, these assets were no doubt valuable. They included a 1793 Golden Coronation Carriage, an 1898 Grand Piano that once belonged to the Empress Alexandra Feodorova, Faberge Jewels dating back to the turn of the 20th century, and a number of artworks.

So the Magnesses did what all judgment creditors have a right to do: they sought a writ of execution that, if granted, would have authorized them to seize these Russian art and cultural objects. Alas, one thing stood in their way. A federal law protects from seizure art and other objects of cultural significance brought into the United States from other countries by agreement between the United States and the objects' owner, so long as the President or his designee determines that the objects have cultural significance and a notice to that effect is published in the Federal Register.

In this case, the President's designee - the General Counsel of the United States Information Agency - had made the necessary determination and had published the necessary notice in the Federal Register, concerning the objects in the Nicholas and Alexandra Exhibit. Therefore, federal District Judge Charles Butler denied the Magnesses' petition for a writ of execution.

Magness v. Russian Federation, 84 F.Supp.2d 1357, 2000 U.S.Dist.LEXIS 1279 (S.D.Ala. 2000)[ELR 22:2:21]

Officials of California Department of Alcoholic Beverage Control are not immune from First Amendment claims prompted by their threats that Palm Springs Convention Center could lose its liquor license if it hosted erotic but non-obscene art exhibition, federal appellate court holds

There is a trade show for every industry, including one for Sensual and Erotic Art. This show has been hosted annually, ever since 1973, by Lifestyles Organization, Limited.

Lifestyle's 1997 show was slated to take place at the Palm Springs Convention Center, but it almost didn't come off. It didn't, because the Convention Center is licensed to serve liquor by the California Department of Alcoholic Beverage Control; and officials from that Department allegedly threatened to revoke the Convention Center's license, if it permitted

Lifestyles to exhibit erotic art, even if the art was not obscene.

The threat was grounded in a state regulation that prohibits the display of sexual, even if non-obscene, images on the premises of liquor licensees. Nonetheless, Lifestyles sought and successfully obtained a temporary restraining order that permitted the 1997 show to be held as scheduled.

That however wasn't the end of the case, because Lifestyles also wanted a permanent injunction and damages. Lifestyles was not quite as successful with these requests, at first. Federal District Judge Dickran Tevrizian dismissed the organization's request for a permanent injunction on the grounds that Lifestyles did not have standing to seek such relief. And the judge granted summary judgment to Department officials on Lifestyles' damages claim, on the grounds that the officials were immune from that claim.

Even that wasn't the end of the case, however, because Lifestyles has prevailed on appeal. Writing for the Court of Appeals, Judge Thomas Nelson has ruled that Lifestyles does have standing, and that the officials are not immune.

Lifestyles has standing, Judge Nelson held, because it alleged a particular, not generalized, grievance, and because it faces a realistic threat of future interference with its trade show.

The Department's officials are not immune from Lifestyles' damages claim, because the California regulation on which they relied when threatening the Convention Center is decades old, and in 1996 - the year before the officials threatened the Convention Center - the Supreme Court held that states may not enforce liquor regulations that would violate the First Amendment in other contexts (ELR 18:2:6). Thus, by 1997, "no reasonable official could have believed that [the California regulation] could constitutionally be employed to impede [Lifestyle's] right to display non-obscene art on the premises of an [Alcoholic Beverage Control] licensee," Judge Nelson ruled.

As a result, the case has been remanded to the District Court for further proceedings.

LSO, Ltd. v. Stroh, 205 F.3d 1146, 2000 U.S.App.LEXIS 3379 (9th Cir. 2000)[ELR 22:2:22]

Dispute over whether Sound Check is a producer or payroll company is subject to arbitration under AFTRA collective bargaining agreements for commercials, appellate court affirms; AFTRA does not have unilateral right to make that decision

Sound Check, Inc., has won the right to arbitrate its contention that it is a "producer" under AFTRA collective bargaining agreements for television and radio commercials. AFTRA believes that the company is really a payroll company, rather than a producer. AFTRA also believed that it, and it alone, had the right to decide whether Sound Check is a bona fide producer, and that disputes over producer-status are not subject to arbitration, even though AFTRA's collective bargaining agreements contain broad arbitration clauses.

This issue arose because producers frequently use payroll companies to pay AFTRA members, and

AFTRA requires both producers and payroll companies to sign "Letters of Adherence" agreeing to be bound by AFTRA's Commercials Contracts (which are the actual collective bargaining agreements).

However - and this is key - only producers who have signed AFTRA's Commercials Contracts are allowed to use AFTRA members in their commercials. Non-signatory producers may not use AFTRA members simply by using payroll companies that have signed Letters of Adherence.

Sound Check claimed to be a producer and was treated as such by AFTRA for many years. When, however, Sound Check didn't respond to an AFTRA questionnaire concerning its producing activities, AFTRA terminated Sound Check's producer status, thus making it ineligible to hire AFTRA members.

Sound Check demanded that its status be determined in arbitration, and when AFTRA refused, the company filed a petition to compel arbitration in federal court. District Judge James Rosenbaum granted Sound Check's petition and entered an order compelling AFTRA to arbitrate. And that order has been affirmed on appeal.

In a decision by Judge James Loken, the appellate court held that "given the breadth of the arbitration clauses [in the AFTRA Commercials Contracts] and the presumption of arbitrability [made by federal law], the dispute is arbitrable. . . ." This was so, Judge Loken said, even though AFTRA was in fact contesting the question of whether Sound Check was an eligible signatory to the very Commercials Contracts that contain the broad arbitration clauses.

Sound Check, Inc. v. American Federation of Television and Radio Artists, 204 F.3d 801, 2000 U.S.App.LEXIS 2862 (8th Cir. 2000)[ELR 22:2:22]

Statute of limitations for federal suit by Kingvision Pay Per View against Memphis bar owner for unauthorized interception of 1997 Holyfield-Tyson fight is three years under Tennessee law, so federal judge denies bar owner's motion to dismiss suit filed in 1999

It took Kingvision Pay Per View almost two years to get around to suing the owner of a Memphis bar and grill for his unauthorized interception of the 1997 Holyfield-Tyson boxing match. The lawsuit was brought in federal court under sections 553 and 605 of the federal Cable Communications Policy Act - sections that do not contain their own statute of limitations.

The bar owner denies that he intercepted that fight, even though a Kingvision investigator swears that he watched the fight in the bar the very night it occurred. Someday, someone may have to decide who's telling the truth. But in the hopes of avoiding such a contest, the bar owner sought dismissal on seemingly plausible procedural grounds.

In cases where federal statutes do not contain their own statute of limitations, the general rule is that judges are to apply the state law statute of limitations for analogous state law claims. In Tennessee, the statute of limitations for claims for statutory penalties is one year. The bar owner argued that sections 553 and 605 provided for statutory penalties, so Tennessee's one-year statute of limitations would apply, thus making Kingvision's lawsuit almost one year too late.

Once before, just such an argument worked for a bar owner in Louisiana where a federal judge used that state's one-year statute of limitations for torts to dismiss a suit filed by Joe Hand Productions a year and a half after the unauthorized interception of the 1995 Whitaker-Vasquez fight (ELR 19:10:13).

In an effort to dodge the fatal effects of Tennessee's one-year statute of limitations, Kingvision argued that Magistrate Judge Diane Vescovo should apply the Copyright Act's three-year statute of limitations, or Tennessee's three-year statute for conversion or injury to property. Though section 553 and 605 claims for unauthorized television interceptions are in fact quite analogous to copyright infringement claims, the Copyright Act is a federal, not state, statute. So, after considerable analysis, Judge Vescovo ruled that Kingvision was wrong to urge her use of its period of limitations.

On the other hand, she agreed that Kingvision's claim was analogous to conversion and injury to property. And thus she applied Tennessee's three-year limitation period. The result was that instead of being almost one year late, Kingvision's lawsuit was filed well within the permitted time, so Judge Vescovo denied the bar owner's motion to dismiss.

Kingvision Pay Per View v. Wilson, 83 F.Supp.2d 914, 2000 U.S.Dist.LEXIS 1527 (W.D.Tenn. 2000)[ELR 22:2:23]

In response to petition for rehearing, federal appellate court holds that assistant football coach at University of Southwestern Louisiana had constitutionally protected right of familial association with his son; but court denies rehearing petition because USL officials were immune from suit coach filed when he was terminated because his son accepted football scholarship to play at rival LSU

Rexford Kipps has every reason to be proud of his son Kyle, even though one of Kyle's accomplishments has cost Rexford his job. Rexford used to be an assistant football coach at the University of Southwestern Louisiana. Son Kyle is a heck of a football player, good enough in fact that he was offered and accepted a football scholarship to play for LSU - a USL rival.

Rexford had been told by his boss that if Kyle didn't play football for USL itself, he better go out of state. So when Kyle accepted LSU's scholarship, Rexford was fired in order "to mitigate the damage that Kyle's attendance at LSU as opposed to USL would have on [USL's] alumni relations and recruiting efforts."

Rexford sued, claiming that his termination violated his constitutionally protected right of familial association with his son. A three-judge panel of the Fifth Circuit Court of Appeals affirmed the dismissal of Rexford's suit. It assumed arguendo that such a right existed. But it held that USL and its officials were immune from Rexford's suit, because their decision to terminate him was "objectively reasonable." (ELR 21:11:16)

Rexford petitioned for a rehearing. There is Fifth Circuit authority for the proposition that constitutional rights should not be assumed (though how this authority would have helped Rexford is not apparent). Thus, in response to Rexford's petition, Judge Robert Parker expressly ruled that Rexford does have such a right - though the judge once again held that USL and its officials are immune from suit because Rexford's termination was "objectively reasonable."

Judge Harold DeMoss concurred once again. He found it "patently ridiculous" to say that it was "reasonable" for USL to terminate Rexford simply because his son decided to play for rival LSU. On the other hand, in Judge DeMoss's opinion, the Constitution does not provide a remedy for "every stupid, irrational, or unreasonable decision taken by a state official." Thus, he would have affirmed the dismissal of Rexford's suit on the grounds that his termination simply did not violate Rexford's right of familial association.

In either event, the court denied Rexford's petition for rehearing.

Kipps v. Caillier, 205 F.3d 203, 2000 U.S.App.LEXIS 2845 (5th Cir. 2000)[ELR 22:2:23]

FCC defeats First Amendment claims of unlicensed radio stations

In separate but similar lawsuits, courts have rejected the First Amendment claims of FM radio stations that the FCC is seeking to shut down because they were broadcasting without licenses.

In response to repeated FCC instructions to obtain a license, Prayze FM - which had been broadcasting from Bloomfield, Connecticut, as station WPRZ - sued the FCC instead. The station's suit challenges the constitutionality of the federal statute that requires it to obtain a license before broadcasting.

The FCC responded with a countersuit, and successfully sought a preliminary injunction that bars Prayze from "making radio transmissions within the United States" until it gets a license. Federal District Judge Warren Eginton ruled that Prayze doesn't have standing to assert its First Amendment challenge, because it never applied for a license under the statute whose constitutionality Prayze contests.

Separately, the FCC took the initiative against Radio Maquina, an unlicensed station in Detroit, by filing a lawsuit that seeks the forfeiture of that station's broadcasting equipment. The day after it filed its lawsuit, the FCC seized the equipment. And the day after that, Radio Maquina responded by seeking an injunction against the FCC and an order quashing the FCC's seizure writ.

In an opinion by Judge Ronald Lee Gilman, a federal Court of Appeals has affirmed the lower court's decision to deny Radio Maquina's request for a preliminary injunction. Judge Gilman noted that as long ago as 1943, the United States Supreme Court held that "[t]he right of free speech does not include . . . the right to use the facilities of radio without a license." As a result, the station was unable to show that it had suffered irreparable harm from the FCC's seizure of its equipment, nor was the station able to demonstrate it was likely to succeed on the merits.

Prayze FM v. United States, 83 F.Supp.2d 293, 1999 U.S.Dist.LEXIS 20959 (D.Conn. 1999); *United States v. Any & All Radio Station Transmission Equipment*, 204 F.3d 658, 2000 U.S.App.LEXIS 2774 (6th Cir. 2000)[ELR 22:2:24]

DEPARTMENTS

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New Uses and New Percentages: Music Contracts, Royalties, and Distribution Models in the Digital Millennium by Corey Field, 18 Entertainment and Sports Lawyer 1 (2000) (for address, see above)

What's In a Name? The Use, Misuse, and Trademark Protection of Brand Names by Edwin F. McPherson, 18

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The DePaul-LCA Journal of Art and Entertainment Law has published Volume 10 including a symposium on Theft of Art During World War II: Its Legal and Ethical Consequences:

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