

BUSINESS AFFAIRS

How to Stop the Strike, by Schuyler Moore

Can't we all just be friends?

This article summarizes some of the key conflicts that may trigger the threatened SAG and WGA strikes. Most of these issues relate to the income base and calculation of residuals, and this article suggests a simple and fair alternative method for calculating residuals that eliminates all the contentious issues, not just in the pending negotiations of the guild agreements, but also in practice.

Residuals are contingent payments based on a percentage of a film's gross revenue. The majority of residuals are paid directly to the guild members, but some payments are also made to the guild's health and

pension benefit plans. Residuals are calculated in the following manner:

- Residuals on theatrical films are only calculated based on video and television revenues, not theatrical revenues.
- Residuals are always calculated based on all or a portion of gross receipts. Thus, they are payable regardless of whether the film company makes a profit. From the film company's perspective, this is, by far, the worst aspect of residuals.
- For film companies that distribute their own videos (as opposed to sublicensing video rights), only 20% of video revenues are included in gross receipts as a deemed royalty.

So here are some of the issues that people are fighting about:

Video and DVD

The guilds agreed to include only 20% of video revenues in gross receipts as a deemed royalty back in the early 80's when manufacturing costs were much higher and video revenues were much lower. In its infancy, video was analogized to merchandising, and it simply made sense to calculate gross revenue to the film company based on the sales margin of each unit. The only problem is that margin has now vastly increased, while the 20% royalty has not. Video and DVD have now grown to be the largest income source for theatrical films and are of key importance to the guilds (in particular because residuals do not apply to theatrical revenues for theatrical films). The guilds are just not likely to accept the 20% royalty theory any more.

The Internet

Notwithstanding the recent spate of Internet bankruptcies, in the not-so-distant future, video-on-demand over the Internet will create a huge new source of film revenue, which to a lesser or greater extent will cannibalize other revenue sources. There are several barriers to making this practical (particularly download speed, quality, and piracy fears), but these barriers are rapidly falling. The problem for the guilds is that the guild agreements divide the film world into theatrical, video, pay TV, and free T.V., and it is not clear just where Internet revenues (or any video-on-demand revenue for that matter) fall, if anywhere, under the current guild agreements. In my book, *The Biz*, I suggested that the answer may be "nowhere," which triggered a quick invitation to lunch from the guilds, where they explained that they thought Internet

revenues fell under every category that was subject to residuals (surprise).

In the pending negotiations, the guilds simply cannot risk missing the boat on Internet and video-on-demand revenue, particularly when that revenue will cannibalize other income streams that are currently subject to residuals. Even if Internet revenues are included, it can be guaranteed with almost absolute certainty that film companies will argue that only 20% of Internet revenues should be included in gross receipts, because such Internet revenue is likely to slowly cannibalize video and DVD revenues, which are currently on a 20% royalty basis. Since there are no manufacturing costs for distribution over the Internet, the guilds are not going to roll over on this one.

Allocations

It is bad enough when films are sold to third parties in packages (particularly television sales), resulting in skewed allocations to lower residual or non-guild films, but to add insult to injury, most of the studios are now vertically integrated with television networks or cable companies, so they are selling to themselves. This practice has led to a number of lawsuits by talent claiming that their participations were short-changed by low-ball inter-company sales, and the guilds are lining up with the same grievance for residuals.

Discounts and Buy-Outs

The guild agreements contain concessions intended to help once-struggling media, including discounts on residuals for programs made for basic and pay cable television, and low buy-outs on foreign

residuals for television shows. With the huge growth in all three of these markets, the guilds are no longer in the mood to subsidize them.

Even aside from these current issues on the negotiating table, the calculation of residuals is riddled with ambiguity, inconsistency, and confusion. For example, the guild agreements are not designed to address independent film companies that use sales agents to pre-sell rights to various foreign countries. The guild agreements are negotiated between the studios and the guilds, and no one at the table is particularly thinking about how the agreements apply to independent film companies. The current guild agreements thus fail to address many common business practices, leading to disputes between film companies and the guilds, such as:

- The guilds take the position that residuals should generally be calculated "at source," i.e., based

on the gross receipts of the lowest level subdistributor, including foreign subdistributors. This causes endless disputes about how the "at source" calculation is to be made, when it applies, and who is liable. For example, in the case of an "outright sale," residuals apply to the sale price, and are not calculated "at source." Unfortunately, the guild agreements do not define an "outright sale," so there are many disputes over this term.

- The guilds take the position that when a distributor licenses video rights to a third party (as opposed to the distributor undertaking video distribution itself), 100% of the payments received are included in gross receipts, as opposed to only 20% being included, as in the case of self-distribution. Some distributors have taken the position that only 20% of video royalties received from third parties should be included in calculating residuals.

- When a film company receives a minimum guaranty from a distributor under a pre-sale agreement, the guilds take the position that the minimum guaranty should be allocated one-third to theatrical (which is not subject to residuals), one-third to video, and one-third to television. Distributors like to allocate a much higher percentage to theatrical.

- The guilds take the position that residuals must be calculated based on the greater of (a) the portion of a minimum guaranty allocated to video and television or (b) the gross receipts of the sub-distributor for the particular media (even if no overages are received by the film company). Film companies view this as an unfair one-way ratchet.

Suggested solution

So, let me suggest one potential simple solution to all this chaos. Why not calculate residuals right up front as a percentage of a film's budget? The amount of residuals thus calculated could then be paid in installments (e.g., one-fourth per year for four years) to more or less track the result under the current approach for the payment of residuals (where residuals are due as revenues are received). Alternatively, the residuals could be paid all up front if the guilds would accept a reasonable discount for the time value of money and elimination of the risk of non-payment that is inherent in the installment approach.

There is tremendous logic for tying residuals to a film's budget:

First, in the absence of knowing anything else, the best prediction of a film's gross receipts is based on its budget. In fact, almost all pre-sales and output agreements provide for payments based on a film's

budget, so there is a direct correlation between the budget and receipts.

Second, residuals have been paid long enough that expected residuals can be calculated, on average, as a percentage of a film's budget. In fact, this is exactly what SAG does when SAG demands an advance bond to secure residuals. All I am suggesting is that this should be the end of the process, rather than the beginning.

Of course, historical averages will not match any particular film's exact revenue, but this brings me to the third and final logical argument: Why should residuals be tied to a film's revenues in the first place? The intent is just to provide extra compensation to the guild members, and it is just as logical to base this extra compensation on a film's budget as it is to base it on gross receipts.

So what percentage of the budget should residuals be? The starting point should simply be the historical average of residuals to film budgets, which will differ for each guild. From there, it is simply a matter of arm wrestling as to whether the percentage should be higher or lower when the guild agreements come up for renewal. This will at least be an honest negotiation, as opposed to the artificial debate about what income streams should or should not be included or whether a 20% video royalty is appropriate. In other words, money is money, and the bottom line is how much money will residuals cost, not whether any particular income stream is or is not included.

This suggested approach benefits everyone.

The first and most obvious benefit is that it creates certainty as to how much residuals will be owed, and it eliminates all the current chaos, confusion, and arguments over the calculation of residuals.

It completely eliminates the time consuming and expensive accounting and auditing process.

It might also benefit everyone if the film company could elect to pay residuals right up front as part of a film's budget. This has an obvious benefit to the guilds, in that it provides for certainty of payment and accelerated cash flow (albeit subject to a reasonable discount for the time value of money and elimination of risk).

Counter-intuitively, up-front payments might also benefit many film companies for several reasons:

- A film's budget would thus increase by the amount of residuals, and because pre-sales and output agreements almost always calculate the amount owed as a function of the budget, an increase to the budget will increase the amount the film is sold for. I know this seems odd, but this is the way the film world works.

- By including residuals in the budget, it becomes possible to finance residuals using standard film financing techniques, such as bank financing, pre-sales, etc. It is typically far better to have this issue dealt with up front than to be caught owing residuals at a time when the film company does not have the cash to pay them; remember, residuals are calculated on gross, not net, receipts, so they apply even if a film is running at a loss.

- As long as the up-front payment is discounted, the total amount of residuals owed is less than under the installment approach.

In all events, this suggested alternative is far better than the current lunacy. It would be a tragedy if the industry is shut down with strikes over issues as abstract as whether only 20% of Internet revenues should be included in gross receipts. This suggested

alternative eliminates for all time the endless arguments that will otherwise occur as future media are developed.

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INTERNATIONAL DEVELOPMENTS

British appellate court allows "Hello!" magazine to publish unauthorized photos of Michael Douglas and Catherine Zeta-Jones' wedding; though recognizing privacy rights of Douglas and Zeta-Jones, court decides that money damages would be adequate if they prevail, in part because they granted photo publication rights to "OK!" magazine

American actor Michael Douglas married Welsh actress Catherine Zeta-Jones in the Plaza Hotel in New York City last November. In an unexpected twist of fate, one of the first byproducts of their union was a precedent-setting decision by a British court - a decision that resulted from the unauthorized publication of photos of their wedding by the British tabloid Hello!

In a lawsuit filed by Douglas, Zeta-Jones and OK! magazine, the Court of Appeal of the British Supreme Court of Judicature has recognized that Douglas and Zeta-Jones do have a right of privacy under British law. Ironically, however, that recognition came in a decision that allowed Hello! to publish their wedding photos, over their objections, and over the objections of OK!, to which Douglas and Zeta-Jones granted the exclusive right to publish photos taken at their wedding, in return for OK!'s payment of "a very substantial sum."

Procedurally, what makes the decision even more remarkable is that Douglas, Zeta-Jones and OK! had obtained (what in the United States would be called) a temporary restraining order by telephone, and then an interlocutory injunction (the equivalent of a U.S. "preliminary injunction") after a hearing before a Division of the Queens Bench. Though the Court of

Appeal created precedent by recognizing the couples' right of privacy, the appellate court did so in an opinion that "discharged" the interlocutory injunction - thus allowing Hello! to publish the photos.

From Douglas and Zeta-Jones' point of view, the court's recognition that they have a right of privacy under British law is likely to be worth more to them than whatever they lost as a result of the court's discharge of the injunction. Indeed, Lord Justice Brooke noted that "If at the trial it is held that Hello! has acted unlawfully, it is likely that it will have to pay the claimants very substantial sums of money."

The burden of losing the injunction appears to have fallen chiefly on OK!, because it and Hello! are fierce competitors. As a result of the court's decision, Hello! was able to publish its wedding photos before OK! could publish its. Lord Brooke was less troubled by Hello!'s competitive coup than he otherwise might

have been, because on earlier occasions, OK! had trumped Hello! using disputed tactics. Among these was OK!'s publication of photos taken at the wedding of Brad Pitt and Jennifer Aniston that OK! bragged were "exclusive" when in fact they had been made available "to every publication in the open market."

The reason the court's decision is precedent-setting is that previously "there was no tort of privacy known to English law." The Court of Appeal itself had said so in the case of *Kaye v. Robertson*, as recently as 1991. However, in October 2000, the Human Rights Act 1998 "came into force" (as the British say) in Great Britain. That Act now requires British courts to give "appropriate effect" to the European Convention on Human Rights and Fundamental Freedoms, Article 8 of which provides "Everyone has the right to respect for his private and family life. . . ." Hence: a right of privacy now exists in Great Britain.

There remains some question about whether this new right was violated by Hello! when it published photos of Douglas and Zeta-Jones' wedding. The couple took elaborate precautions to be certain that unauthorized photos were not taken by Plaza Hotel staff or by invited guests. On the other hand, Douglas and Zeta-Jones themselves authorized OK! to publish photos taken by their own photographer. OK! had to obtain the couples' approval for the particular photos it would publish, thus preserving a measure of their privacy. But by authorizing OK! to publish some photos, they also gave up a measure of their privacy. That, however, was only one reason the Court of Appeal vacated the interlocutory injunction they had won.

The European Convention on Human Rights not only requires recognition of "respect for . . . private and family life." It also provides - in Article 10(1) - that

"Everyone has the right to freedom of expression." While the European Court of Human Rights has never given Article 10(1) as much force as the First Amendment is given in the United States, Article 10(1) favored Hello!'s argument that it should not be enjoined.

Moreover, section 12 of the Human Rights Act 1998 specifically requires British courts to consider whether relief granted against a publisher "might affect the exercise of the Convention right to freedom of expression." And the Act provides that "No such relief is to be granted so as to restrain publication before trial unless the court is satisfied that the applicant is likely to establish that publication should not be allowed."

Douglas and Zeta-Jones were able to rely on yet another paragraph of section 12 of the Human Rights Act 1998 that seems to favor them - one that provides that in giving effect to the Convention's right to

freedom of expression, courts are to consider "any relevant privacy code." As it happens, in 1997 the British Press Complaints Commission ratified a "Code of Practice" that, in language reminiscent of the European Convention on Human Rights and Fundamental Freedoms, provides, "Everyone is entitled to respect for his or her private and family life" The Code of Practice even goes on to say that "A publication will be expected to justify intrusions into any individual's private life without consent. . . ," and that "The use of long lens photography to take pictures of people in private places without their consent is unacceptable."

In the end, however, the Justices of the Court of Appeal were persuaded that the balance between the privacy rights of Douglas and Zeta-Jones and the free expression rights of Hello! favored Hello!, insofar as the interlocutory injunction was concerned. The court

emphasized that it was not ruling on the final merits of the case, and thus was not ruling on whether the couple or OK! will be entitled to damages after trial. The tone of the opinion, however, suggested that if the facts developed at trial conform to the record compiled during the injunction proceedings, Hello! may have to pay substantial damages.

Douglas v. Hello! Limited, U.K. Court of Appeal (2000), available at <http://wood.ccta.gov.uk/courtser/judgements.nsf> [ELR 22:10:8]

NEW LEGISLATION AND REGULATIONS

California enacts cybersquatting statute banning "bad faith" registration of domain names that are confusingly similar to names of living people and deceased personalities

The state of California has enacted its own cybersquatting statute, apparently in order to protect the successors of deceased personalities.

The statute makes it "unlawful" to register, sell or use domain names, in "bad faith," that are confusingly similar to the personal names of living people and deceased personalities. Insofar as the names of living people are concerned, the California statute duplicates protection already offered by the federal Anticybersquatting Consumer Protection Act (ELR 21:7:4). The federal act, however, does not protect the

names of deceased personalities, so the California statute fills a gap left open by federal law.

The new statute provides nine factors courts may consider when deciding whether a registration, sale or use was in "bad faith." Among these is an intent to sell the domain name "for substantial consideration" without having used it. Another is an intent to divert consumers to a website that could harm the goodwill of a living person or deceased personality.

The statute does not apply to some activities. It doesn't apply, for example, to domain names connected to works of authorship, including dramatic, literary, audiovisual and musical works. The purpose of this exemption is not explained by the California Legislative Counsel's Digest. But it would appear to authorize book publishers and record companies to register as domain names the personal names of their

authors and recording artists, even without their consent.

Also, the statute protects domain name registrars against claims arising out of their efforts to comply with the new law. The statute does so by providing that domain name registrars "shall not be liable to any person" for actions taken to comply with the statute's central ban on the registration and sale of offending domain names.

Finally, the statute does appear to recognize that some domain names should not be unlawful, even if they are confusingly similar to the names of living people and deceased celebrities and are registered without their consent. This is so, because among the factors to be considered by courts when deciding whether a use is in "bad faith," is whether the use is a "legitimate noncommercial or fair use" of a person or deceased celebrity's name.

The statute gives California courts broad jurisdiction to hear anticybersquatting cases. They may do so "on any basis not inconsistent with the Constitution of this state or of the United States."

Cyber Piracy, California Senate Bill No. 1319, adding Article 1.6, sections 17525-17528 to the California Business and Professions Code (2000), available at <http://www.leginfo.ca.gov/calaw.html> [ELR 22:10:10]

IN THE NEWS

Federal District Court orders Napster to prevent uploading and downloading of music files; Napster reports on its efforts to comply, and also complains that it has not been provided with all required information

Record companies and music publishers have already begun to reap the benefits of their appellate court victory last month against the online "file sharing" service, Napster (ELR 22:9:5). But the case appears far from over. Napster immediately filed a petition with the Ninth Circuit Court of Appeals seeking a rehearing en banc. The company also has argued to District Judge Marilyn Hall Patel that the infringement notices sent to Napster by some music

publishers do not contain all of the information required by the Court of Appeals' ruling.

Though the Court of Appeals held that Judge Patel correctly ruled in the music companies' favor when she issued a preliminary injunction against Napster last year (ELR 22:3:4), the appellate court held that Judge Patel's injunction was overbroad. As a result, in an opinion by Judge Robert Beezer, the appellate court remanded the case to Judge Patel, with instructions to rewrite the terms of the injunction.

Judge Patel quickly did so. The judge ordered Napster to prevent its users from uploading and downloading music files within three business days of being notified by music companies of the titles of works they own or control, the names of the artists who recorded them or the composers who wrote them, and the names of one or more files on the Napster system containing those works. Judge Patel also ordered

Napster to file a Compliance Report indicating the steps it took to comply with that order.

In response to Judge Patel's order, record companies and music publishers have provided Napster with long lists of recordings and compositions whose copyrights they own which are being "shared" on Napster without their consent. Napster in turn has developed software designed to block works that appear on those lists. According to press reports, Napster has in fact blocked a significant percentage of those works, as required by Judge Patel's order.

Still in dispute, however, is the question of what type of information record companies and music publishers must give Napster, before Napster is required to block particular works from its index. Judge Patel's original injunction put much if not all of the burden on Napster to determine which works on its index were infringing, and to remove them.

The Court of Appeals sided with Napster when it ruled that Judge Patel's original order was overbroad. Though the appellate court agreed that Napster "bears the burden of policing the system with the limits of the system," it said, "we place the burden on plaintiffs to provide notice to Napster of copyrighted works and files containing such works available on the Napster system before Napster has the duty to disable access to the offending content."

The appellate court's requirement that music companies provide Napster with notice of "files containing such works" - in addition to notice of "copyrighted works" - is what has created the continuing dispute. Music companies can of course provide information concerning song titles, artists and composers, but information about "files containing such works" is a more difficult matter. Many Napster users may offer files of the very same recording, and

each user's file would be a separate "file containing such work."

Judge Patel recognized that "each file is available only as long as the user offering that file is logged on to the Napster system. Once the user logs off the system, the specific infringing file is no longer available on Napster. . . . Given the limited time an infringing file may appear on the system and the individual user's ability to name her files, relief dependent on plaintiffs' identifying each 'specific infringing file' would be illusory."

The judge resolved this dilemma by noting that the Court of Appeals had imposed some of the compliance burden on Napster too. And she noted that "it may be easier for Napster to search the files available on its system at any particular time against lists of copyrighted recordings [and musical compositions] provided by plaintiffs." Therefore, Judge

Patel ruled that "the results of such a search provide Napster with 'reasonable knowledge of specific infringing files' as required by the Ninth Circuit." She even authorized record companies to "provide to Napster in advance of release the artist name, title of the recording, and release date of sound recordings for which . . . there is a substantial likelihood of infringement on the Napster system." In those cases, the judge ordered, "Napster shall beginning with the first infringing file block access to or through its system to the identified recording."

In its Compliance Report, Napster complains that it has received lists from music publishers that include song titles but that do not identify particular user files. Because many different songs have the same titles - though they are written by different songwriters and their copyrights are owned by different publishers - Napster complains that if it is required to block works

on the basis of song titles alone, it will be blocking some songs whose copyrights are not in fact owned by the publishers who submitted the lists. Thus, even as its petition for rehearing en banc is pending before the Court of Appeals, Napster has asked Judge Patel to schedule another hearing in her court to resolve the question of what information must be provided by music companies before it is required to block works from its online index.

A&M Records, Inc. v. Napster, Inc., USDC N.D.Cal. No. 99-05183MHP (March 5, 2001), available at <http://www.cand.uscourts.gov/>; *Napster Compliance Report*, available at www.riaa.com/pdf/complrprt1.pdf and www.riaa.com/pdf/complrprt2.pdf; *Napster Petition for Rehearing*, available at <http://dl.napster.com/010223-petition.pdf> [ELR 22:10:11]

Warner Bros. and Oliver Stone win dismissal of lawsuit by shooting victim alleging they intended viewers of "Natural Born Killers" to imitate criminal conduct of movie's main characters

Violent acts committed by those who had seen "Natural Born Killers" have resulted in at least two civil lawsuits against Warner Bros. and Oliver Stone. The unfortunate victims of those acts sought to hold the movie's distributor and director liable on the theory that they were in some way responsible for the actions of its viewers. One case was filed in Georgia, the other in Louisiana. Warner Bros. and Stone won both cases, but two trips to a trial court in Louisiana were necessary before they prevailed there.

The Louisiana case was filed by Patsy Ann Byers and her family after Byers was shot during a convenience store robbery. The trigger was pulled by a

woman named Sarah Edmondson at the urging of her crime spree partner, a fellow named Benjamin Darrus. Byers' wounds rendered her a paraplegic, and she died just a few years later.

According to the allegations of Byers' complaint, Edmondson and Darrus watched "Natural Born Killers" shortly before they began their own violent crime spree. The complaint alleged that Warner Bros. and Stone "knew, should have known or intended" that their movie "would incite people such as Edmondson and Darrus to commit violent acts such as the one committed against Byers." Warner Bros. and Stone had a duty not to produce the movie "in the form in which it was released," Byers alleged, or they had a duty "to protect her from viewers who would imitate the violent acts or crimes committed by the film's two main characters."

Early in the case, Warner Bros. and Stone filed a motion seeking its dismissal, on the grounds that they did not owe Byers the duty she alleged, and that even if such a duty existed as a matter of tort law, it would violate the First Amendment. The Georgia case had just been dismissed on those grounds; and a Louisiana trial court granted their motion in Byers' case too.

Byers and her family appealed, and after she died, the Louisiana Court of Appeal reversed (ELR 21:2:8). It held that "if" Byers' family could prove its allegation that Warner Bros. and Stone "intended to urge viewers to imitate the criminal conduct of . . . the main characters in the film, then the risk of harm to a person such as Byers would be imminently foreseeable, justifying the imposition of a duty . . . to refrain from creating such a film." Under those circumstances, Warner Bros. and Stone would have breached their duty to Byers by producing and distributing "Natural

Born Killers," thus making them liable to her family for the damages inflicted on her "by viewers of the film imitating the violent imagery depicted in the film."

The appellate court emphasized that "mere foreseeability or knowledge" that information obtained from a book, movie or recording would not be enough to impose liability. Proof of "intent" is necessary, and such proof may "be remote and even rare." Where however such intent is alleged, as it was in this case, the "cause of action is not barred by the First Amendment," the appellate court concluded. Warner Bros. and Stone asked the Supreme Court to review the decision, but the Supreme Court denied their petition, so the case went back to the Louisiana trial court for discovery and possible trial.

Following discovery, Warner Bros. and Stone made a motion for summary judgment. According to press reports, their motion has been granted. Judge

Robert Morrison III ruled that there was no evidence that Warner Bros. or Stone "intended" viewers of the movie to commit violent acts. Without evidence of such an intent, Byers' survivors were not entitled to prevail - even under the standard set by the Court of Appeal's earlier ruling in their favor. [ELR 22:10:12]

Sony and Connectix settle PlayStation emulator lawsuit

Connectix Corporation has announced that it has entered into a "Joint Technology Agreement" with Sony Computer Entertainment pursuant to which the two companies "will . . . define a series of development initiatives in the area of advanced emulation solutions."

Shinichi Okamoto, Sony's Senior Vice President of Research and Development, said that he and his

company "look forward to significant advances in emulation technology as a result of our cooperation with Connectix, who owns excellent technology in this field." Roy McDonald, President of Connectix, responded that its agreement with Sony "gives us the resources to move rapidly into a wide range of exciting new applications for our core emulation and virtual machine technologies. We believe that this collaboration can lead to improved development tools, innovative consumer products and productive enterprise solutions."

Close readers of these pages may at first be surprised to read of this alliance. Connectix has been the target of an aggressive intellectual property lawsuit in which Sony has objected - not without some cause - to Connectix's Virtual Game Station. The Virtual Game Station is an ingenious piece of software that allows

users to play Sony PlayStation games on their computers, rather than on PlayStation consoles.

That lawsuit produced a ruling by the Ninth Circuit Court of Appeals that even though Connectix made an unauthorized copy of Sony's PlayStation software in order to design the Virtual Game Station, Connectix did not infringe Sony's copyright, because copying for purpose of reverse engineering is a fair use (ELR 21:1:14). Sony was so confident (or hopeful) that the Ninth Circuit's ruling was wrong that Sony sought review by the Supreme Court. The Supreme Court, however, denied Sony's petition (ELR 22:8:27). Shortly thereafter, the two companies reached their Joint Technology Agreement.

As part of that Agreement, Sony and Connectix "resolved all legal issues pertaining to Connectix Virtual Game Station (CVGS)." The Agreement also provides that Sony "will acquire from Connectix all

assets related to the VGS emulation technology. Connectix will continue to offer the current version of both CVGS for Macintosh and Windows until June 30, 2001. . . . All further emulation development for the PlayStation game console will proceed under the auspices of the joint agreement."

Connectix Corporation Press Release (March 14, 2001), available at http://www.connectix.com/company/press_cvgs_mar1401.html [ELR 22:10:12]

RECENT CASES

Bruce Springsteen and Sting fail to reclaim domain names from alleged cybersquatters; Julia Roberts, Madonna, Dan Marino and Jethro Tull succeed

Bruce Springsteen has suffered a disappointing and somewhat surprising setback in his efforts to reclaim the domain name "bruce springsteen.com" from a Canadian website operator who registered that domain name in 1996, without Springsteen's knowledge or consent.

Springsteen thus joins Sting in a small pool of performers who have lost their names to others for use as website domain names. Several others - including Julia Roberts, Madonna, Dan Marino and Jethro Tull - have succeeded against opportunistic "cybersquatters." But the opinion in the Springsteen case criticizes the

reasoning of the Julia Roberts and Dan Marino decisions, thus raising the possibility that other performers too now will have a more difficult time dealing with unauthorized registrants of celebrity domain names.

The unauthorized domain name registration of celebrity (and company) names is such a serious problem that lawmakers have given victims a choice of at least three different types of cases they may bring against alleged cybersquatters. One is a federal court lawsuit under the Anticybersquatting Consumer Protection Act (ELR 21:7:4). Another is an administrative proceeding under the Uniform Domain Name Dispute Resolution Policy ("UDRP") adopted by the Internet Corporation for Assigned Names and Numbers ("ICANN") (ELR 22:1:4). And the third is a state court lawsuit under a newly-enacted California "Cyber Piracy" statute (ELR 22:10:10, above).

Each of the three types of cases has its own unique advantages and disadvantages. An UDRP administrative proceeding is faster and cheaper than the other two, and is easy to bring and pursue even if the cybersquatter is located in another country. For these reasons, UDRP proceedings have been popular with celebrities, most of whom have thus far been satisfied with the results.

In order to win a UDRP proceeding, the person (or company) whose name has been registered as a domain name by someone else must show three things:

1. the domain name is the same or confusingly similar to a "trade mark" or "service mark" in which the "Complainant has rights";
2. the alleged cybersquatter has no rights or legitimate interests in the domain name; and
3. the domain name was registered and used "in bad faith."

Trademark in name

For a while, it looked as though performers may have difficulty in UDRP proceedings, because few if any of them register their names as trademarks or service marks. There even has been a question as to whether they would be eligible to claim common law trademark protection. If a performer's name is not a trademark, the first requirement of a successful UDRP proceeding would not be satisfied, and the cybersquatter would win for that reason, even if no other.

The band "Jethro Tull" uses its name to sell goods and services and had actually applied to register its name as a European Community trademark, before it brought a UDRP proceeding against two Florida residents who had registered "jethrotull.com" and "jethro-tull.com," without the band's consent. The

Florida men didn't dispute Jethro Tull's trademark ownership, nor the similarity of the contested domain name with the band's name.

However, the question of whether a performer's name can be a trademark for UDRP purposes was disputed in Julia Roberts' case against a New Jersey man who registered "juliaroberts.com," without her consent. The Administrative Panelists who heard Roberts' case decided that she does have common law rights in her own name that are sufficient under UDRP rules. And since the contested domain name was identical to her name, the Panelists decided that she had satisfied the first requirement.

Relying on the Julia Roberts decision, Panelists reached the same conclusion in Dan Marino's case against a Texas company that had registered "danmarino.com," without the consent of the former Miami Dolphins quarterback.

Madonna had a more difficult time with the trademark status of her name, even though she is the registered owner of the mark "Madonna" for entertainment services and related goods. The reason she had difficulty, in her UDRP proceeding against a New York man who registered "Madonna.com," is that the word "Madonna" has dictionary definitions unrelated to the performer. Moreover, "Madonna" also is part of the name of Madonna College and Madonna Hospital, neither of which is related in any way to Madonna the singer. Nevertheless, the Panelists in Madonna's case determined that Madonna has trademark rights in her name, and that the disputed domain name was identical.

Sting too had a difficult time with the trademark issue. "Sting" is the professional name used by British performer Gordon Sumner. He has never registered "Sting" as a trademark, but 20 other people or

companies have, in the U.S. alone. Moreover, "sting" is a common word in the English language. As a result, the Panelists in Sumner's UDRP proceeding against a Georgia resident who registered "sting.com," were uncertain about his trademark rights in the name "Sting." "In light of the fact that the word 'sting' is in common usage in the English language, with a number of meanings," they said, "this case can be distinguished from the other cases . . . in which the Complainants' personal name was found also to be an unregistered trademark This Administrative Panel is inclined to the view, therefore, that the Complainant's name Sting is not a trademark . . . with the scope of the [UDRP] Policy." The Panel, however, did not reach a "formal decision" on this issue, because it ruled against Sumner on other grounds.

Bruce Springsteen also had a difficult time with the trademark status of his name. Ultimately, in a two-

to-one decision, the Panelists in his case were willing to "proceed on the assumption" that Springsteen's name is protected under UDRP rules, because the majority ruled against him on other grounds. If other grounds were not available, the tone of the majority's decision suggests that they would have criticized and even departed from the Julia Roberts decision on the question of whether a performer's name can be a trademark for UDRP purposes.

Alleged cybersquatter's interest in domain name

Sometimes, cybersquatters don't even claim to have an interest in the disputed domain name. Those who registered "jethrotull.com" and "danmarino.com" didn't, so Jethro Tull and Dan Marino easily prevailed on this issue. The Panelists in Dan Marino's case went a step further, and in language that is most helpful to

celebrities, offered their opinion that ". . . in light of the uniqueness of the name DanMarino.com, which is virtually identical to Complainant's personal name and common law trademark, it would be extremely difficult to foresee any justifiable use that the Respondent could claim. On the contrary, selecting this name gives rise to the impression of an association with the Complainant which is not based in fact."

Other times, cybersquatters make feeble efforts to assert an interest in the disputed domain name. The New York man who used "madonna.com" had registered "Madonna" as a trademark in Tunisia, though he neither lived there nor used the mark there. He also offered the domain for sale to Madonna Hospital (in Nebraska), though no sale was ever made. And he cited examples of others besides Madonna who have rights in the mark Madonna. However, none of these amounted to an interest in "madonna.com" of the

sort that would have defeated Madonna's claim, the Panelists ruled.

The New Jersey man who registered "juliaroberts.com" offered a plausible explanation for his interest in the domain name. "I registered JuliaRoberts.com," he said, "because, after seeing several of her movies, I had a sincere interest in the actor. . . ." That however was not the sort of "interest" that satisfied UDRP rules, so Julia Roberts prevailed on that issue.

The Georgia man who registered "sting.com" made a stronger case for having an interest in that domain name. He said that he had used "sting" or "=sting=" for years as his username or screen name while playing Internet games. Though the Panelist ruled against Sting for other reasons, on this issue he ruled in Sting's favor. "[A] more substantive use of the word 'sting' than that proven by Respondent is required

to show a right or legitimate interest in the domain name 'sting.com' . . . ," the Panelist concluded.

Given these results, it would be difficult to imagine what legitimate interest anyone other than Bruce Springsteen (or his record company) could have in "bruce springsteen.com." The Canadian man who registered that domain name didn't use it to sell goods or services; "bruce springsteen.com" merely redirected websurfers to another website he operated, "celebrity1000.com."

Though the Canadian man claimed to be the head of a Bruce Springsteen Club, that didn't give him an interest in the name, because he was not "known by" the club's name, as the UDRP rule required.

On the other hand, the Panel majority decided that the Canadian man had an interest in the domain name, because he made a "legitimate non-commercial or fair use of the domain name, without intent for

commercial gain to misleadingly divert customers or to tarnish the trade mark or service mark at issue."

Apparently, "celebrity1000.com" is not a commercial website, nor does it contain or link to pornography. Also, in the majority's opinion, websurfers would not mistakenly believe that "brucespringsteen.com" was officially connected with Bruce Springsteen in any way, because there are thousands of sites containing information about Springsteen, not all of which are "authorized" or "official."

Bad faith

The UDRP rules define four ways in which domain names may be registered or used in "bad faith." Often, performers have little difficulty satisfying this element, because the person who registered or used

the disputed domain name offers to sell it back to the complaining performer for more than the user paid for it. Thus, the Panelists who decided the Jethro Tull case found that the Florida man who registered "jethrotull.com" and "jethro-tull.com" did so in bad faith, because he offered to sell those domains back to Jethro Tull for \$13,000.

In the Dan Marino case, the Panelists found that the Texas company that registered "danmarino.com" did so to prevent Dan Marino from using his name as a domain name and to attract webservers to the site for the purpose of selling them "Dan Marino" merchandise with which he had no connection. Both of these purposes are among those the UDRP rules describe as being examples of "bad faith."

Likewise, Panelists found that the user of "madonna.com" used that domain in order to trade on

the goodwill of a famous singer for commercial purposes; and they held that was "bad faith."

In the Julia Roberts case, "bad faith" was premised on the New Jersey registrant's admission that he had registered the names of several famous movie and sports stars, and that his registration of Julia Roberts' name necessarily prevented her from using her own name as a domain name. Moreover, the registrant had offered the domain registration for sale on eBay, an act that the Panel found "constitutes additional evidence of bad faith."

On the other hand, Sting failed to persuade his Panelist that the Georgia man who registered "sting.com" did so in bad faith. Two grounds offered by Sting would have supported a "bad faith" finding: an assertion that the registrant had offered to sell the domain name to Sting for \$25,000; and an assertion that "sting.com" was linked to a gun brokering website.

Unfortunately for Sting, those grounds were not supported by evidence, in the opinion of the Panelist.

More importantly, the Panelist rejected Sting's argument that any use of the disputed domain name would be illegitimate. The Panelist noted again that "sting" "is a common word in the English language, with a number of meanings." The Georgia man claimed he used the domain in ways unrelated to Sting, and though "the evidence provided in support of this assertion [was] not particularly strong," it was enough that the Panelist decided that Sting had not carried his burden to show that "sting.com" had been registered in bad faith.

Bruce Springsteen too failed to show that "brucespringsteen.com" had been registered or used in bad faith. The Canadian man who registered the mark had not attempted to sell it to anyone. In the opinion of the Panel's majority, the disputed registration had not

prevented Springsteen from using his name as a domain name, because his record company had registered and was using "brucespringsteen.net." The majority also found that the disputed domain name had not disrupted Springsteen's business. Nor did the majority think it likely that the disputed domain name would result in any consumer confusion.

Springsteen inconsistent with Roberts and Marino

The entire tone of the majority's decision in the Bruce Springsteen case is inconsistent with the decisions in the Julia Roberts and Dan Marino cases - and the Springsteen majority makes no bones about it. In the closing passages of their decision, the majority takes issue with those cases, saying they "are flawed" or even "erroneous."

One panelist dissented from the majority in the Springsteen case. He was the Presiding Panelist in the Julia Roberts case, so his dissent is not surprising. His dissent is nevertheless just that - a dissent. While the majority's decision is no more binding on future panels than earlier decisions were on them, celebrity performers now know that UDRP cases are not sure winners.

Springsteen v. Burgar, Case No. D2000-1532 (WIPO 2000), available at <http://arbiter.wipo.int./domains/decisions/html/2000/d2000-1532.html>; *Ciccone p/k/a Madonna v. Parisi*, Case No. D2000-0847 (WIPO 2000), available at <http://arbiter.wipo.int./domains/decisions/html/2000/d2000-0847.html>; *Marino v. Video Images Productions*, Case No. D2000-0598 (WIPO 2000), available at <http://arbiter.wipo.int./domains/decisions/html/2000/d2>

000-0598.html; *Sumner p/k/a Sting v. Urvan*, Case No. D2000-0596 (WIPO 2000), available at <http://arbiter.wipo.int./domains/decisions/html/2000/d2000-0596.html>; *The Ian Anderson Group of Companies (Jethro Tull) v. Hammerton*, Case No. D2000-0495 (WIPO 2000), available at <http://arbiter.wipo.int./domains/decisions/html/2000/d2000-0495.html>; *Roberts v. Boyd*, Case No. D2000-0210 (WIPO 2000), available at <http://arbiter.wipo.int./domains/decisions/html/2000/d2000-0210.html> [ELR 22:10:14]

Appeals Court affirms judgment that Baltimore Ravens logo infringes copyright to design created by amateur artist, despite Ravens' testimony that it never received artist's submission

Frederick E. Bouchat is an amateur artist. For pay, he's a security guard at the Maryland State Office Building in Baltimore. Now, as a result of a jury verdict, he is something else too: the judicially confirmed creator of the logo of the NFL's Baltimore Ravens.

In an opinion by Judge Blane Michael, a federal Court of Appeals has refused to overturn a judgment finding that the Ravens' logo infringes the copyright to a logo design created by Bouchat - despite uncontradicted testimony by Ravens' officials that they never received Bouchat's submission.

The question of whether Bouchat ever sent his design to the Ravens, and if he did, whether they received it, was so close that the jury had trouble reaching a verdict. It did so only after the trial judge delivered an Allen charge ordering the jurors to continue their deliberations.

Moreover, the appellate court judges who reviewed that verdict were themselves split. Judge Robert King wrote a vigorous dissent, arguing that Bouchat failed to prove the Ravens had access to his design, and that the Ravens' testimony negated whatever inference of access may have been created by Bouchat's evidence.

In order for Bouchat's submission to have been received by the Ravens, and then by the NFL Properties designers who created the Ravens' logo design, Bouchat's design had to traverse a path with several links. It had to go from Bouchat to the office of the

Maryland Stadium Authority; from there to the law office of the Chairman of the Maryland Stadium Authority; from there to the Ravens' owner (whose office was in the same building but on a different floor as the Chairman of the Stadium Authority); and from him to the NFL Properties design team.

According to Judge Michael, writing on behalf of the appellate court's majority, Bouchat's evidence was sufficient to permit the jury to infer that Bouchat's design passed through all of these links. This was so, Judge Michael held, even though one of those links was supported by nothing more than testimony concerning the "regular practice" of the Stadium Authority to forward to its Chairman's law office materials that were sent to him at the Authority's office.

Judge King dissented, because as he viewed the evidence, it did not support inferences that: the Stadium Authority office ever received Bouchat's submission;

that even if it did, the submission was forwarded to the Chairman's law office; that even if it was, it was forwarded to the Ravens' owner; or that even if was, the Ravens' owner sent it to the NFL Properties design team.

The one issue on which both Judge Michael and Judge King agreed concerned whether Bouchat could claim a copyright in his design at all. The design contained several public domain elements. The two judges agreed, however, that Bouchat's selection, coordination and arrangement of those elements made his design as a whole sufficiently "original" to qualify for copyright protection. They also agreed that Bouchat did not lose his protection, simply because he failed to disclose the "derivative" nature of his design, when he registered his copyright with the Copyright Office. "Accidental but harmless mistakes in a copyright application do not subsequently preclude an

infringement action against an alleged copier," Judge Michael explained.

Bouchat was represented by Howard J. Schulman, Schulman & Kaufman, Baltimore. The Ravens and NFL Properties were represented by Robert Lloyd Raskopf, White & Case, New York City.

Editor's note: This is not the first case in which an NFL team was accused of copying its logo from a design submitted by a fan. In *Grubb v. National Football League*, the New England Patriots defeated such a claim on the very grounds that were unsuccessfully relied on by the Ravens: the Patriots persuaded the courts that their logo designer did not have access to the plaintiff's design (ELR 18:2:10,18:12:9). Nor is the Ravens case the only copyright case won by a plaintiff under circumstances where the defendant made a pretty persuasive case that it never had access to the plaintiff's work. It happened

most recently in the Michael Bolton case (ELR 22:5:11).

Bouchat v. Baltimore Ravens, Inc., 228 F.3d 489, 2000 U.S.App.LEXIS 24792 (4th Cir. 2000) [ELR 22:10:16]

MTV wins dismissal of breach of implied contract and confidentiality claims in case alleging that "Blue's Clues" was developed from ideas submitted by creator of "Steve & Bluey"

MTV Network's "Blue's Clues" is one of the most successful children's television programs in history. Like other successful (and even unsuccessful) programs, its bloodline has been disputed.

Among those claiming to be the father of "Blue's Clues" is Steven Fischer, who, in the late 1970s,

created animated characters named "Steve & Bluey." Though not as well known as MTV's "Blue," Fisher's "Steve & Bluey" have appeared in published comic strips and in a television series on TCI-TV.

Fischer submitted his idea for a "Steve & Bluey" television series to MTV Networks in 1993. But after being referred from one office to another, Fischer broke off further communications with the company when it sent him an idea-submission release.

"Blue's Clues" debuted on MTV in September 1996. Fischer first learned of it in January 1997, and filed suit against MTV and its parent company Viacom in December 1999. The lawsuit alleged that by producing "Blue's Clues" without paying Fischer or giving him creative credit, MTV breached an implied contract, breached a confidential relationship, and infringed his rights under the Lanham Act.

In response to an MTV motion, federal District Judge Frederick Motz has dismissed two of Fischer's claims.

The judge dismissed Fischer's breach of implied contract claim on the grounds that it is preempted by the Copyright Act. Fischer had argued that his implied contract claim was based on MTV's use of his ideas, and since copyright law does not protect ideas, the Copyright Act didn't preempt his claim. Judge Motz rejected that argument, however.

The judge noted that the Copyright Act preempts state claims for protection of works that are within the "scope" of copyright if the protection sought is equivalent to that provided by copyright. Judge Motz concluded that both conditions were satisfied in this case.

Though copyright does not protect ideas, the judge explained that "the scope of the subject matter of

copyright extends beyond those works actually protected by the Copyright Act . . . ; it may, in fact, extend to include uncopyrightable material, such as ideas . . . , particularly when those ideas are embodied in, or intermingled with, copyrightable material. . . ." In this case, the judge concluded that Fischer's idea fell within the scope of copyright, because his ideas were set forth in a detailed, copyrightable, written description of his proposed program.

Also, the protection sought by Fischer - compensation and credit for the mere use of his ideas - was equivalent to the protection provided by the Copyright Act.

Fischer's breach of confidence claim also failed. That claim required Fischer to show that he had a relationship with MTV that imposed a duty of trust or confidentiality on the company, or that MTV promised to keep his ideas confidential. He couldn't show either.

Fischer did not allege that MTV had made a promise of confidentiality. Nor did he allege facts showing that MTV owed him a duty of trust or confidentiality. The judge explained that Fischer and MTV were dealing at arm's length with one another; they had no prior dealings; and there was no employment or personal relationship that would have given rise to a duty of trust.

MTV also sought dismissal of Fischer's Lanham Act claim, on the grounds that it was filed more than three years after "Blue's Clues" began airing. In Maryland, the statute of limitations for such a claim is three years. But under Maryland law, the limitations period begins to run only when an injured party knows, or should have been put on inquiry, that a wrong has been committed.

In this case, Fischer alleged that he didn't know, and had no reason to know, about "Blue's Clues" until

January 1997, which was less than three years before he filed his lawsuit. As a result, Judge Motz denied MTV's motion to dismiss Fischer's Lanham Act claim.

Fischer was represented by Harold M. Walter, Tydings & Rosenberg, Baltimore. MTV was represented by Michael S. Libowitz, Thomas & Libowitz, Baltimore.

Fischer v. Viacom International, Inc., 115 F.Supp.2d 535, 2000 U.S.Dist.LEXIS 18565 (D.Md. 2000) [ELR 22:10:17]

MGM's post-bankruptcy acquisition of Orion gave MGM right of first negotiation for distribution rights to "Terminator" sequels, because rights were preserved in Orion's bankruptcy plan

"Terminator" and "Terminator 2" were hugely successful movies, so it's not surprising that many in the movie business think their sequel rights are valuable too. Just who owns those rights is a matter of considerable dispute. MGM claims at least a right of first negotiation for the domestic and foreign distribution rights to "Terminator" sequels. But AGV Productions - producer Andrew Vajna's company - claims that it owns the sequel rights free and clear, and that MGM has no sequel rights to "Terminator."

So far, MGM has won the first round of the dispute. Federal District Judge Allen Schwartz has ruled that insofar as federal law issues are concerned,

MGM does own first negotiation distribution rights to "Terminator" sequels. And Judge Schwartz ruled that the state law issues in the case should be resolved in state court in California, rather than in his federal courtroom in New York City.

Neither AGV nor MGM was involved in producing the first two "Terminator" movies. Both came by whatever sequel rights they now have by acquiring them from other companies. MGM's chain of title is especially complicated. The final link extends from MGM's acquisition of Orion in 1997, less than a month after Orion's bankruptcy proceeding was closed. Orion's ownership of "Terminator" sequel rights defies easy description. It appears that charts were necessary to explain it to Judge Schwartz. But at least for the purpose of his ruling, Judge Schwartz found that Orion did own sequel rights before it went bankrupt.

Apparently, the parties agree that if MGM does not own those sequel rights, then AGV does. And for lots of reasons, AGV argues that MGM does not. Some of those reasons have to do with the interpretation and validity - as a matter of California state law - of the contracts by which Orion may have had sequel rights.

AGV also had a federal law reason for disputing MGM's asserted sequel rights. That reason grew out of Orion's bankruptcy; and that was the issue on which Judge Schwartz ruled.

Orion's bankruptcy plan rejected all of Orion's "executory" contracts, except those in certain defined categories. The agreements by which Orion acquired "Terminator" sequel rights were "executory" contracts, because they were distribution agreements that required Orion to do certain things in the future. The disagreement between AGV and MGM was over whether those contracts fell into one of the categories,

defined in the Orion bankruptcy plan, as an exception to those that were rejected.

In other words, if the distribution contracts that gave Orion sequel rights were in a category that was not rejected, then Orion was still bound by - and still benefited from - those contracts, at the time its bankruptcy proceeding was closed and Orion was acquired by MGM.

Among the contracts that were not rejected were those that gave rise to "Participation Claims." Orion's bankruptcy plan defined such claims as including claims that required Orion to make payments to others based only on Orion's receipt of revenues from a movie's exploitation. AGV hotly disputed whether Orion's contracts concerning "Terminator" gave rise to such claims.

The facts showed, however, that participation claims had been made against Orion in connection with

"Terminator," and had been paid by Orion. For this and other reasons, Judge Schwartz concluded that Orion's "Terminator" contracts fell into the category of those that gave rise to "Participation Claims" and thus were not rejected.

Since Orion's "Terminator" contracts - and the sequel rights they contained - were not rejected, Orion emerged from bankruptcy with those rights intact. And thus, when MGM acquired Orion after its bankruptcy, MGM acquired those sequel rights as well. That was what Judge Schwartz concluded, as a matter of federal law. He offered no opinion on how AGV's arguments under California state law ought to be resolved. Those await another judge in another state, to be resolved another day.

AGV Productions was represented by Robert S. Churchill, Gerstein & Churchill, New York City. MGM

was represented by Francis J. Menton Jr., Wilkie Farr & Gallagher, New York City.

AGV Productions, Inc. v. Metro-Goldwyn-Mayer, Inc.,
115 F.Supp.2d 378, 2000 U.S. Dist. LEXIS 13338
(S.D.N.Y. 2000) [ELR 22:10:18]

Claim by Cynthia Maurizio that she co-authored "First Wives' Club" with Olivia Goldsmith was time-barred, appellate court affirms; statute of limitations was not tolled while Maurizio pursued related claim in New York state court

Cynthia Maurizio made a tactical error when she first filed suit against her former friend Olivia Goldsmith concerning Maurizio's alleged contribution to Goldsmith's novel *First Wives' Club*. Maurizio filed

that suit in New York state court, where she alleged breach of contract and other state law claims. After years of litigation, Maurizio lost that case on the grounds that her claims were preempted by federal copyright law.

Undaunted, Maurizio refiled her case in federal court, this time alleging that she is the co-author of *First Wives' Club*, and thus the co-owner of its copyright; or if not, that Goldsmith infringed Maurizio's copyright in the material Maurizio allegedly contributed to the novel.

Maurizio's co-ownership claim was dismissed by Judge Lawrence McKenna on the grounds that she had delayed too long before filing it, and thus it was barred by the Copyright Act's three-year statute of limitations (ELR 22:2:12). Judge McKenna allowed Maurizio to take an interlocutory appeal from that ruling. But the Court of Appeals has affirmed.

In a short Per Curiam decision, the Court of Appeals has ruled that the statute of limitations on Maurizio's copyright co-ownership claim was not tolled while her state court case was pending. "Maurizio did not assert copyright claims in the state forum," the appellate court explained. Thus the doctrine of "equitable tolling" - which applies in cases where causes of action asserted in one court belong in another - did not apply to Maurizio's case.

The appellate court pointedly noted that it had not considered whether the result would have been the different, if "for tactical reasons" Goldsmith's lawyer had failed to raise the preemption argument in state court until after the statute of limitations had run. In this case, Goldsmith's lawyer raised the preemption issue in state court immediately, and had not tried to "render Maurizio complacent in the wrong forum until

the statute of limitations for her federal claims had expired."

Maurizio was presented by Robert C. Osterberg, New York City. Goldsmith was represented by Howard J. Schwartz, Morristown, New Jersey.

Maurizio v. Goldsmith, 230 F.3d 518, 2000 U.S.App.LEXIS 27277 (2nd Cir. 2000) [ELR 22:10:19]

RICO claims by hockey players against NHL and former executive director of NHL Players Association are barred by statute of limitations, Court of Appeals affirms

Alan Eagleson's federal indictment and guilty plea are at the heart of the darkest chapter in the history of professional hockey. Eagleson was the executive

director of the NHL Players Association for more than two decades. He also represented players and management personnel as their lawyer and agent in contract negotiations with NHL team owners. He headed the organization that negotiated international hockey events for Canada. And he owned private hockey-related businesses, including one that placed NHL disability insurance policies and controlled the Players Association's own insurance.

Despite his stature in the world of hockey, Eagleson was a controversial figure too. *Sports Illustrated* and *The Eagle Tribune* ran articles in 1984 and 1991, reporting allegations of his wrongdoing. And an investigation by Ed Garvey (the former head of the NFL Players Association), undertaken on behalf of a large number of NHL players, resulted in a written report in 1989 that also was extremely critical of Eagleson.

In the wake of Eagleson's guilty plea, five former NHL players filed a class action RICO suit against Eagleson and the National Hockey League, as well as its teams and several NHL officials. The civil lawsuit alleged that the NHL had maintained a collusive arrangement with Eagleson, pursuant to which Eagleson had abandoned the players' interests in collective bargaining in return for the NHL's "facilitation of and acquiescence in his self-enriching schemes."

If the players' allegations were true, Eagleson and the NHL would have violated section 302 of the Labor-Management Relations Act which prohibits employers from paying employee representatives, and prohibits employee representatives from accepting payment from employers. This violation would have constituted a "predicate act" under the civil RICO statute, so that it would have been violated too. Thus,

the players' civil RICO lawsuit posed a serious risk of liability, not only to Eagleson individually, but also to the NHL and its teams and officials.

The facts behind the players' RICO allegations have been recited in detail by two federal courts. But the legal merits of those allegations have never been assessed. Instead, in response to a defense motion, District Judge Thomas O'Neill Jr. dismissed the players' RICO claim on the grounds that it was barred by the statute of limitations (ELR 20:10:14). And that ruling has been affirmed by the Court of Appeals.

In an opinion by Judge Morton Greenberg, the appellate court noted that after Judge O'Neill issued his ruling, the Supreme Court decided an unrelated case involving the statute of limitations in RICO cases. In doing so, the Supreme Court rejected the test that Judge O'Neill had used for deciding when the period of limitations begins to run in a RICO case. However, the

Supreme Court's newly announced test didn't change the proper outcome, because the new rule made it even tougher for the hockey players than the old one.

Under the new test, Judge Greenberg concluded that the period of limitations on the players' RICO claim began to run at least as early as 1989 when Ed Garvey's report was completed. As a result, by the time the players filed their lawsuit in 1995, the four-year statute of limitations on civil RICO claims had already expired. It made no difference, Judge Greenberg held, that the federal government itself had not indicted Eagleson until 1994.

The players were represented by Martin J. Oberman, Chicago. The NHL was represented by Michael A. Cardozo, Proskauer Rose, New York City. Alan Eagleson represented himself.

Forbes v. Eagleson, 228 F.3d 471, 2000 U.S.App.LEXIS 25918 (3rd Cir. 2000) [ELR 22:10:19]

Boston Globe wins dismissal of copyright infringement, defamation and invasion of privacy claims filed against it by television talk-show host

Federal District Judge Joseph Tauro has dismissed copyright infringement, defamation and false light invasion of privacy claims filed against The Boston Globe by television talk-show host Kenneth Lyons. The judge did so in response to the Globe's motion for summary judgment.

Lyons' lawsuit complained about a Globe article that, among other things, referred to a Lyons' TV commentary that was critical of a proposed settlement of a lawsuit filed by a Jewish woman against the Town

of Newton. According to Lyons, the article labeled him an anti-Semite.

Lyons' infringement claim was based on the fact that the Globe article quoted three sentences from a four-page transcript of Lyons' broadcast. Judge Tauro dismissed the infringement claim, because he ruled that the quotations were a fair use.

The judge rejected Lyons' defamation claim for two reasons: because the Globe did not publish a "provably-false factual assertion"; and because Lyons had not shown that the Globe's article was published with "actual malice."

Finally, Judge Tauro dismissed Lyons' false light invasion of privacy claim, because Massachusetts does not recognize that as a cause of action separate from defamation.

Lyons was represented by Joseph W. Monahan III, Cambridge. The Boston Globe was represented by Jonathan M. Albano, Bingham Dana & Gould, Boston.

National Association of Government Employees v. BUCI Television, Inc., 118 F.Supp.2d 126, 2000 U.S. Dist. LEXIS 16143 (D. Mass. 2000) [ELR 22:10:20]

Court denies website company's motion to enjoin PGA rules prohibiting company's sale of real-time golf scores made available at tournament on-site media centers, because likelihood that PGA violated antitrust laws was not shown

Professional golf is a leisurely sport, compared for example to professional basketball. Nevertheless,

there is a market for real-time golf scores just as there is for real-time basketball scores.

The PGA Tour provides real-time golf scores for its tournaments, as does a company known as Morris Communications Corporation. Morris provides those scores on its own websites, jacksonville.com and augustachronicle.com, from which Morris generates advertising and subscription revenues. In addition, Morris has sold real-time golf scores to other companies including USA Today and Golfonline.com.

Morris gets its golf-score information from the PGA itself. The PGA has developed an elaborate system for gathering golfers' scores on a hole-by-hole basis as tournaments are being played. Those scores are relayed to tournament media centers, to which accredited media organizations are given access. Morris has been an accredited organization for years, and thus

was able to get its real-time scoring information from PGA media centers.

Until January 2000, PGA's rules concerning the media's use of real-time scores said nothing about the sale of that information to others. But in that month, the PGA amended its rules - known as On-Line Service Regulations - to prohibit accredited media organizations from selling real-time scores to others, without the PGA's consent. Because Morris is a competitor of the PGA in the business of selling real-time golf scores - a business known as "syndication" - Morris responded by suing the PGA for antitrust violations in federal District Court in Florida.

Cases of this kind have been known to take years to resolve, because the issues they present are worthy of appellate review. The National Basketball Association's attempt to control the dissemination of real-time scores of its games was ultimately decided by

a Court of Appeals. The NBA lost that case (ELR 19:4:17). And that result may have encouraged Morris to believe that it could prevail too. But since Morris is an Internet company, and works in Internet time, it didn't want to wait for a full-blown trial and appeal. Shortly after filing its case, it sought a preliminary injunction, without success.

Judge Harvey Schlesinger has denied Morris' motion for a preliminary injunction, on the grounds that it failed to show a likelihood that the PGA's On-Line Service Regulations violate federal or state antitrust laws.

Morris' principal allegation was that the PGA violates the "essential facilities" doctrine. This doctrine provides that "a monopolist in control of a facility essential to other competitors must provide reasonable access to that facility if it is reasonable to do so."

Judge Schlesinger concluded that Morris failed to show that the PGA was being unreasonable, because it has a legitimate business justification for its rules. The PGA argued that if it permitted Morris to syndicate real-time scores, Morris would be "free-riding" on costs the PGA incurs in gathering those scores and making them available in tournament media centers. Judge Schlesinger agreed that if he granted the preliminary injunction sought by Morris, he would be authorizing "some degree of free riding."

Judge Schlesinger did not award the PGA an unqualified victory, saying that his decision "does not . . . foreclose the possibility that [Morris] might ultimately succeed in establishing an antitrust violation." The judge noted that there is a difference between winning at trial and meeting the standard for a preliminary injunction. "All the Court decides today,"

the judge concluded, "is that [Morris] has not achieved the latter."

Morris Communications was represented by George D. Gabel, Holland & Knight, Jacksonville. PGA Tour was represented by Gregory F. Lunny, Rogers Towers Bailey Jones & Gay, Jacksonville.

Morris Communications Corp. v. PGA Tour, Inc., 117 F.Supp.2d 1322, 2000 U.S.Dist.LEXIS 15620 (M.D.Fla. 2000) [ELR 22:10:21]

In connection with case brought by player Stanley Roberts in German court, United States District Court grants application of International Basketball Federation for subpoena requiring NBA to produce documents concerning Roberts' alleged violation of NBA drug policy, despite collective bargaining provision requiring NBA to keep such information confidential

Stanley Roberts, formerly a player with the NBA's Philadelphia 76ers, was on the verge of signing a \$500,000 a year contract to play basketball for a team in Istanbul when he was banned from competition by the Federation Internationale de Basketball - commonly known as FIBA - for two years.

Despite what W.C. Fields once said about Philadelphia, Roberts didn't leave the 76ers to play in Turkey because he preferred Istanbul. Rather, Roberts

was expelled from the NBA in 1999, because he tested positive for a drug that is prohibited by the NBA Anti-Drug Program.

FIBA rules authorize it to ban players who fail NBA drug tests. But in response to being banned by FIBA, Roberts sued FIBA in Germany where he argued (among other things) that he had not in fact violated NBA drug policies. In order to defend against that allegation, FIBA applied to a United States District Court for a subpoena requiring the NBA to produce documents concerning Roberts' expulsion.

The NBA opposed FIBA's application on the grounds that the NBA collective bargaining agreement requires it to keep those documents confidential. The NBA was not successful.

Judge Lewis Kaplan has granted FIBA's application. He reasoned that Roberts had waived

whatever privacy interests he may have had, by putting his drug test results into issue in his case in Germany.

The judge also rejected Roberts' "Self Evaluative Privilege." Courts that have recognized such a privilege have declined to apply it in cases where the needs of the party requesting information exceed the harm done by disclosing it. "In this case," the judge said, "FIBA genuinely needs the requested information in view of Roberts' attempt in Germany to controvert the NBA's finding that he violated its anti-drug policy."

Judge Kaplan was not persuaded by the NBA's argument that the National Basketball Players Association would refuse to agree to a drug policy in the next collective bargaining agreement, if the details of Roberts' drug tests were disclosed to FIBA. Judge Kaplan reasoned that it ". . . could result in substantial public opprobrium and large economic losses for the

players should such a position result in a strike or lockout."

FIBA was represented by Robert H. Smit, Simpson Thacher & Bartlett, New York City. The NBA was represented by Jeffrey Mishkin, Skadden Arps Slate Meagher & Flom, New York City.

In re Federation International de Basketball, 117 F.Supp.2d 403, 2000 U.S.Dist.LEXIS 15553 (S.D.N.Y. 2000) [ELR 22:10:21]

Company infringed photographer's copyrights by using commissioned photos in unauthorized ways

As a general rule, when a company hires a photographer to take pictures of the company's products, the company may use those pictures only in

agreed-upon ways. If the company uses the photos in other ways too, the company commits copyright infringement.

This general rule has been applied by federal District Judge William Pauley in a case brought against Artisan House, Inc., by professional photographer Steven H. Lindner. In response to cross-motions for summary judgment, Judge Pauley has held that Artisan House is liable for infringing Lindner's copyrights. In order to reach that result, the judge had to evaluate and reject several affirmative defenses raised by Artisan House. And that is exactly what the judge did: he rejected them.

The case grew out of a routine assignment. Artisan House hired Lindner to shoot photos of picture frames that the company designs, makes and sells. In return for a fee of \$3700, Lindner shot photos of 130 different frames, with the understanding they would be

used as color slides by Artisan House's sales force. In fact, Artisan House also used the photos in a catalogue, in brochures, in magazine publicity releases, and in computerized displays.

In response to Lindner's infringement lawsuit, Artisan House argued that his photos were not sufficiently original to be entitled to copyright protection. Judge Pauley wrote a short history of photography and copyright protection for photos, and came to the conclusion that Lindner's photos are entitled to protection. "Linder's works may not be as creative as a portrait by Dianne Arbus," the judge acknowledged, "but they show artistic judgment . . ." in their lighting, in the angle of the camera, and in Lindner's selection of a lens and filter.

The judge also rejected Artisan House's argument that the photos were works made for hire or joint works.

They were not works made for hire, because the factors specified by the Supreme Court in *CCNV v. Reid* (ELR 11:3:12) "weigh heavily" in Lindner's favor.

They were not joint works, because the "Mere selection of the subject matter to be photographed does not create joint authorship." Judge Pauley also rejected Artisan House's argument that the photos were joint works because the company created the picture frames that were depicted in the photos. He did so, because the copyrighted works at issue in the case were Lindner's photographs, not Artisan House's frames. "If [Artisan House's] theory were credited," the judge explained, "then any photograph of any copyrighted sculptural work would automatically be a joint work between the photographer and the sculptor. Such a result would be plainly absurd."

Finally, Judge Pauley rejected Artisan House's argument that it had at least an implied license to use

Lindner's photos in the ways that it did. "[N]o court has found an implied license where the nature of the use is contested," he observed. In this case, slides of the photos Artisan House paid for would be useful to it as sales tools without implying a license that authorized the company to use them in other ways too.

Lindner was represented by Todd Blecher, New York City. Artisan House was represented by Alfred R. Fabricant, Ostrolenk Faber Gerb & Soffen, New York City.

SHL Imaging, Inc. v. Artisan House, Inc., 117 F.Supp.2d 301, 2000 U.S. Dist. LEXIS 14179 (S.D.N.Y. 2000) [ELR 22:10:22]

Imported French and German nudist magazines were not obscene and thus should not have been seized, federal appellate court rules

Imported copies of the French and German nudist magazines *Jeunes et Naturels* and *Jung und Frei* were not obscene, a federal Court of Appeals has ruled. And thus, they should not have been seized by postal authorities, pursuant to a federal statute that prohibits importation of obscene publications.

The magazines in question featured photographs of nude minors and teenagers, as well as adults. For that reason, District Court Judge Joseph Greenaway concluded that the Supreme Court's Miller test for obscenity should be applied in a stricter manner. As a result, Judge Greenaway ordered the forfeiture and destruction of the seized magazines.

On appeal, however, Judge Leonard Garth ruled that the stricter standard applies only in cases under a federal child pornography law. In this case, the magazines were seized under a statute that authorizes seizure only of obscene publications, not child pornography. Therefore, the Miller test should have been applied as it would have been in any other obscenity case.

Judge Garth noted that the magazines were nudist lifestyle publications that did not depict sexual activities. The judge also found the magazines' contents to be similar to other publications available in the community - publications the government did not contend are obscene.

For these reasons, the Court of Appeals concluded that the magazines did not meet the Miller test for obscenity, and it ordered the government to return the magazines to the Alessandra's Smile, the

New Jersey company that had imported them from abroad.

Alessandra's Smile was represented by Eugene B. Nathanson, New York City. The government was represented by Robert J. Clearly, United States Attorney, Newark.

United States v. Various Articles of Merchandise, 230 F.3d 649, 2000 U.S.App.LEXIS 26627 (3rd Cir. 2000) [ELR 22:10:23]

Court dismisses more, but still not all, claims made against NCAA and others by learning disabled student who was ineligible to participate in intercollegiate football during freshman year

Michael Bowers is leaving his mark on the world of college sports, but not in the way he had hoped. What he wanted to do was play football for Temple University. However, Bowers is learning disabled. For that reason he did not complete the high school "core curriculum" required by NCAA rules to be eligible for an athletic scholarship or to play during his freshman year.

Bowers responded by suing the NCAA, Temple and others for violating the Americans with Disabilities Act, the Rehabilitation Act and the New Jersey Law Against Discrimination. The case has produced three

lengthy written decisions already, and it hasn't even gone to trial yet.

In the first of those decisions, federal District Judge Stephen Orlofsky denied Bowers' motion for a preliminary injunction (ELR 20:1:16). In the second decision, Judge Orlofsky dismissed some, but not all, of Bowers' claims, in response to a defense motion for summary judgment (ELR 20:8:17). Now, in a third decision prompted by further defense motions for summary judgment, Judge Orlofsky has dismissed a few more - but still not all - of Bowers' claims.

In his latest opinion - this one spanning 44 printed pages - the judge has rejected Bowers' argument that he is entitled to damages for the loss of a future athletic career, on the grounds that such damages are too speculative. Judge Orlofsky also held that two defendants - ACT, Inc., and the NCAA Initial-Eligibility Clearinghouse - are not recipients of federal

financial assistance under the Rehabilitation Act; and therefore Bowers' claims against them under that Act were dismissed. The judge also dismissed Bowers' breach of contract claims against those two defendants.

On the other hand, Judge Orlofsky denied the rest of the defendants' motions for summary judgment, ruling that:

- * Bowers still suffers from the NCAA's eligibility regulations in a way that gives him standing to seek injunctive relief;
- * Bowers may recover money damages under the Rehabilitation Act, if he is able to prove he was discriminated against intentionally;
- * the NCAA is subject to the Americans with Disabilities Act, because it is a "place of public accommodation";
- * the NCAA has not yet provided sufficient evidence to prove that its eligibility requirements are "necessary"

with the meaning of the Americans with Disabilities Act;

* the waiver review process undertaken by the NCAA on Bowers' behalf was not a "reasonable accommodation";

* fact issues remain concerning whether Bowers is an "otherwise qualified individual";

* the NCAA may be a "recipient of federal funding" under the Rehabilitation Act; and

* additional evidence is necessary to decide whether the New Jersey law applies when people seek access to public accommodations outside of New Jersey.

The case will therefore continue on these issues.

Bowers was represented by Barbara E. Ransom, Public Interest Law Center of Philadelphia. The NCAA was represented by Charles J. Vinicombe, Princeton. ACT and the Clearinghouse were represented by Robert A. Burgoyne, Fulbright & Jaworski,

Washington DC. Temple University was represented by John B. Langel, Ballard Spahr Andrews & Ingersoll, Philadelphia. The University of Iowa was represented by Mark Schantz, Office of the General Counsel of the University, Iowa City. And American International College was represented by Thomas C. Hart, Ruprecht & Hart, Millburn NJ.

Bowers v. National Collegiate Athletic Ass'n, 118 F.Supp.2d 494, 2000 U.S. Dist. LEXIS 16104 (D.N.J. 2000) [ELR 22:10:23]

Court dismisses lawsuit filed by St. John's University athletic department administrative assistant who alleged that he was forced to resign because he refused to wear Nike clothing

Graduate students at St. John's University ordinarily wear whatever style clothing they like. But graduate student James Keady alleged that he was treated differently. Keady's primary role at St. John's was as a student seeking a master's degree in pastoral theology with a concentration in social justice. However, to help pay for his studies, he also was an administrative assistant in St. John's athletic department.

St. John's has a deal with Nike pursuant to which the University's athletes and athletic department personnel wear Nike clothing, and in return, Nike gives the University apparel and money. Keady opposed the

deal and refused to wear Nike clothing, primarily because he objects to the company's "living wage" policies. As a result, Keady alleged, he was forced to resign from his administrative assistant position.

Keady made this allegation in a multi-claim lawsuit filed in federal District Court. The lawsuit didn't get far. In response to motions by St. John's and Nike, Judge Allen Schwartz has dismissed it.

The judge dismissed Keady's civil rights claims on the grounds that Keady had not alleged any state action that resulted in the deprivation of his rights. Indeed, Judge Schwartz ruled that Keady had not even alleged that he was deprived of any constitutional or federal statutory rights.

Keady did allege that St. John's and Nike had violated his rights under New York state and city Human Rights Laws that prohibit discrimination on the basis of religious views. But even if he was

discriminated against on account of his views, the judge found, those views were "ethical or sociopolitical views, rather than religious beliefs." Neither the state nor city law protect against discrimination on ethical or sociopolitical views.

Judge Schwartz also ruled that Keady failed to allege facts supporting his claims for breach of contract and defamation.

Keady was represented by Jeffrey M. Harmatz, New York City. St. John's University was represented by Raymond G. McGuire, New York City. Nike was represented by Daniel Weisberg, New York City.

Keady v. Nike, Inc., 116 F.Supp.2d 428, 2000 U.S. Dist. LEXIS 13740 (S.D.N.Y. 2000) [ELR 22:10:24]

Court denies student athlete's request for preliminary injunction barring athlete's suspension for violating high school Athletic Code

Jamaal Butler is a "skilled three-sport athlete." Nevertheless, he was unable to participate in football, basketball or track during his senior year at Oak Creek High School (in Wisconsin), because Butler was suspended for a year, and a federal District Court has refused to enjoin his suspension.

Butler was suspended from sports for violating provisions of Oak Creek's Athletic Code. The Code prohibits athletes from using alcohol, tobacco or drugs, and it prohibits them from violating criminal laws. According to the school, Butler violated the Code five times by smoking cigarettes, by possessing marijuana, by consuming alcohol, by possessing fireworks, and by being arrested for disorderly conduct.

Butler sued to set aside his suspension, arguing that it violated his due process rights and that the Athletic Code itself is unconstitutional. His arguments however have not persuaded Judge Lynn Adelman. Judge Adelman did agree with Butler that once Butler was allowed to participate in Oak Creek's athletic programs, he had a legitimate expectation of being permitted to continue doing so as long as he adhered to the Athletic Code. On the other hand, the judge also found that Oak Creek had satisfied its obligation to provide Butler with due process before he was suspended.

Butler's attack on the Athletic Code was based on his objection to its applicability to student behavior off campus and out of season. Judge Adelman noted, however, that as long ago as 1908, the Wisconsin Supreme Court had held that schools have the authority to suspend students for offenses committed outside of

school hours and the presence of teachers. For that reason, the judge found it unlikely Butler would establish that the Athletic Code is unconstitutional.

Butler was represented by Robert E. Sutton, Milwaukee. Oak Creek was represented by Charles H. Bohl, Milwaukee.

Butler v. Oak Creek-Franklin School District, 116 F.Supp.2d 1038, 2000 U.S. Dist. LEXIS 16193 (E.D. Wisc. 2000) [ELR 22:10:24]

PGA defeats injury claim by spectator, because slippery condition of golf course was open and obvious

Linda A. Rogers slipped and fell on a wet, grassy hillside while watching the 1996 PGA gold

championship at Valhalla Golf Club in Louisville, Kentucky. Unfortunately, Rogers was injured by her fall. As injured people often do, Rogers sued the PGA and Valhalla, seeking compensation for her injuries.

She has not, however, been successful. A Kentucky state trial court awarded summary judgment to the PGA and the Valhalla Golf Club, and that ruling has been affirmed on appeal.

Writing for the Court of Appeals of Kentucky, Judge David Buckingham has held that the condition of the wet and slippery hillside was "open and obvious," and since it was, neither the PGA nor Valhalla owed Rogers a duty of care. "Had she exercised ordinary prudence," the judge explained, "she would have realized the danger from this hazard."

Because the PGA and Valhalla did not owe Rogers a duty of care, they didn't breach any duty to her, and thus committed "no actionable negligence."

Rogers was represented by Brentley P. Smith, Louisville. The PGA and Valhalla were represented by David K. Barnes, Louisville.

Rogers v. Professional Golfers Ass'n, 28 S.W.3d 869, 2000 Ky.App.LEXIS 105 (Ky.App. 2000) [ELR 22:10:25]

Court dismisses Comerica Bank's third-party malpractice claim against New York Islanders' law firm, in case in which Islanders allege that Comerica negligently misrepresented financial status of buyer of team

For part of 1997, John Spano was the owner of New York Islanders hockey team. The Islanders' prior owner alleges that it turned control of the team over to

Spano, even though he failed to make the \$16.8 million cash payment their deal called for, because Spano's bank sent the Islanders a letter saying that Spano had a net worth of more than \$100 million. In fact, Spano had no significant assets, and when Spano continued to fail to make the required payment, the Islanders' prior owner took back control of the team.

During the time Spano ran the Islanders, he caused the team \$10 million in damages. That at least is the allegation made by the Islanders in a negligent misrepresentation lawsuit against Spano's bank, Comerica Bank- Texas.

Like a good hockey team, Comerica prefers offense to defense. So it filed a third-party complaint against the Islanders' own law firm, Richards & O'Neil, LLP. The bank alleged that if the team suffered damages, those damages were due to Richards & O'Neil's legal malpractice - namely, its negligent failure

to investigate Spano's finances with due diligence before the Islanders were sold to Spano. For that, Comerica sought contribution from the law firm towards any damages the bank might be ordered to pay to the Islanders.

Comerica was able to play offense for only a short time. Federal District Judge Arthur Spatt has granted the law firm's motion to dismiss the bank's third-party complaint for failure to state a claim. The judge ruled that since Richards & O'Neil was the Islanders' law firm during the sale to Spano, the Islanders are bound by the law firm's acts and omissions and "suffers the consequences of any missteps" made by the firm. Thus "any culpable conduct by [Richards & O'Neil], such as a negligent failure to properly investigate Spano's financial means, would be attributable to [the] Islanders through agency principles."

Judge Spatt explained that the Islanders' misrepresentation suit against Comerica requires the Islanders to prove that they were not negligent in turning control over to Spano. Thus, since any negligence on the part of Richards & O'Neil will be attributed to the Islanders, Comerica is fully protected from liability for any negligence allegedly committed by the law firm. That is why the bank's third-party complaint failed to state a valid claim for contribution.

Judge Spatt also concluded that Richards & O'Neil does not have to be disqualified from continuing to represent the Islanders in their suit against Comerica. Lawyers in the firm "will necessarily be major witnesses in the trial. . . ." But New York's Code of Professional Responsibility requires lawyers to withdraw from a case only if their testimony "may be prejudicial to the client." In this case, the judge noted

that the Islanders and Richards & O'Neil "are, in actuality, completely united in interest."

The Islanders and Richards & O'Neil were represented by Johnathan Zavin, Richards & O'Neil, New York City. Comerica Bank-Texas was represented by Steven Wolowitz, Mayer Brown & Platt, New York City.

New York Islanders Hockey Club v. Comerica Bank-Texas, 115 F.Supp.2d 348, 2000 U.S. Dist. LEXIS 15274 (E.D.N.Y. 2000) [ELR 22:10:25]

Court refuses to enjoin enforcement of Indianapolis ordinance restricting children's access to violent coin-operated video games

Manufacturers of coin-operated video games won part of their case against an Indianapolis ordinance that affects their business - but only part. Federal District Judge David Hamilton agreed with the manufacturers that their games are a form of expression protected by the First Amendment. But Judge Hamilton denied the manufacturers motion for a preliminary injunction barring enforcement of the objected-to ordinance, because he concluded that it is unlikely the manufacturers will establish that the ordinance is unconstitutional.

The ordinance prohibits children from playing or watching (without their parents' permission) coin-operated video games that are "harmful to minors"

because of their "strong sexual content" or "graphic violence." None of the manufacturers had any quarrel with the ordinance's restrictions on games having "strong sexual content." They did however object to its restrictions on games portraying "graphic violence."

Indianapolis defended against the manufacturers' constitutional attack on the ordinance by arguing that video games are not speech and thus are not protected by the First Amendment at all. Some older cases have in fact so held. But in a lengthy and carefully analyzed decision, Judge Hamilton sided with the game manufacturers on this issue.

This conclusion led to the question of whether it is constitutional to restrict "violent" expression at all. In 1968, the Supreme Court ruled in *Ginsberg v. New York* that governments may constitutionally restrict children's access to sexually explicit material of a type that adults have a First Amendment right to see.

Indianapolis sought to extend the Ginsberg rule to violent material too.

Judge Hamilton concluded that the Ginsberg rule does extend to violence. He said that he was "not persuaded there is any principled constitutional difference between sexually explicit material and graphic violence, at least when it comes to providing such material to children." Moreover, Indianapolis showed it had legitimate reasons to be concerned about violent video games causing harm to children. And the judge concluded that the ordinance was "carefully tailored" to dealing with potential harms to children without barring adults from using the games in question.

Judge Hamilton also was unpersuaded by the manufacturers' argument that the ordinance was unconstitutionally vague.

For these reasons, the judge denied the manufacturers' motion for a preliminary injunction. "It would be an odd conception of the First Amendment . . ." he said, "that would allow a state to prevent a boy from purchasing a magazine containing pictures of topless women in provocative poses, as in Ginsberg, but give that same boy a constitutional right to train to become a sniper at the local arcade without his parent's permission."

The game manufacturers were represented by David L. Kelleher, Arent Fox Kintner Plotkin & Kahn, Washington D.C. The city of Indianapolis was represented by Matthew R. Gutwein, Baker & Daniels, Indianapolis.

American Amusement Machine Association v. Kendrick, 115 F.Supp.2d 943, 2000 U.S.Dist.LEXIS 15076 (S.D.Ind. 2000) [ELR 22:10:26]

Nude dancing club fails to win injunction barring enforcement of a local ordinance aimed at liquor license holders

Federal District Judge Ronald Lagueux has denied a local nightclub owner's preliminary injunction motion, which sought to bar enforcement of a Johnston, Rhode Island, ordinance forbidding establishments holding alcoholic beverage licenses from remaining open between the hours of one a.m. and six a.m.

The constitutionality of the statute was challenged by Club Starzz, a nightclub featuring nude dancing. For over 50 years, the Club had provided erotic entertainment to the public; and in 1999, it decided to expand its services around the clock. When the Club applied for a Business Operating After Hours License, the city granted the License, but it prohibited the Club from serving alcohol between one and six a.m.

The Club filed a lawsuit arguing that the provision violated its First Amendment rights. While litigation was pending, the Club moved for a preliminary injunction to prevent Johnston officials from enforcing the provision. Judge Lagueux denied the motion.

The judge reasoned that although nude dancing is entitled to First Amendment protection, the "narrowly tailored" ordinance seeks to prevent the secondary effects of crime and deterioration in the community caused by nude dancing and alcohol consumption. The Club, he held, may still communicate its message through exotic dancing for 19 hours during the day; therefore the Ordinance is not a prior restraint on permissible speech.

Judge Lagueux noted that the Ordinance bans all holders of alcoholic beverage licenses from acquiring the License and doesn't single out nude dancing

establishments. The judge held that a municipality may enact regulations that serve purposes unrelated to the content of expression - even if it indirectly affects some speakers - to curtail the undesirable secondary effects caused by businesses serving alcohol throughout the night. The Ordinance doesn't create an outright ban on nude dancing.

Club Starzz was represented by Robert Ciresi, Providence. The Town of Johnston was represented by Kathleen Powers, Providence.

El Marocco Club, Inc. v. FOX, 110 F.Supp.2d 54, 2000 U.S. Dist. LEXIS 12184 (D.R.I. 2000) [ELR 22:10:26]

Appellate court upholds constitutionality of portions of Wisconsin city ordinance, after construing law so it does not apply to mainstream movies and plays

A Cumberland, Wisconsin, city ordinance that regulates "sexually oriented businesses" has been resurrected in part, by an appellate court ruling that construes the law more narrowly than it was written.

In a lawsuit filed by a bar and exotic dancer, the ordinance was declared unconstitutional by Federal District Judge Barbara Crabb. She found that the ordinance was overbroad, because as written, it could be applied "to a commercial establishment featuring mainstream motion pictures or plays of unquestioned artistic merit in which there is a naked female breast or the depiction of two individuals engaging in sexual intercourse." (ELR 21:1:18) The city appealed, with some success. Writing for the Court of Appeals, Judge

Michael Kanne agreed that the plain language of the ordinance could be construed to apply to "a theater or playhouse that shows on a regular basis an interpretation of Hair, a presentation characterized by much nudity but which the [Supreme] Court has indicated constitutes protected speech." On the other hand, Judge Kanne noted that an "overbreadth challenge fails when the regulation's plain language is readily susceptible to a narrowing construction that would make it constitutional."

Judge Kanne supplied such a "narrowing construction" by interpreting the ordinance to apply only to those businesses that provide nude performances "on a permanent basis." He explained that "This construction limits the Ordinance to adult-entertainment establishments, which always feature nudity, semi-nudity and specified sexual content, and excludes theatrical venues that present shows like Hair

or Equus for long stretches but not on a permanent basis."

So construed, Judge Kanne upheld that constitutionality of portions of the ordinance that prohibit nudity within sexually oriented businesses, as well as certain other provisions concerning the licensing of such businesses. The judge affirmed the unconstitutionality of other provisions that ban sexually explicitly dance movements and that concern the identification and disqualification of certain employees.

The bar and dancer were represented by Randall D.B. Tigue, Minneapolis. The City of Cumberland was represented by Richard M. Burnham, LaFollette & Sinykin, Madison.

Schultz v. City of Cumberland, 228 F.3d 831, 2000 U.S.App.LEXIS 23773 (7th Cir. 2000) [ELR 22:10:27]