LEGAL AFFAIRS

Recording Industry Practices

by Senator Kevin Murray
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The California Senate Select Committee on the Entertainment Industry has now held three hearings on recording industry practices. The first one on the California's Seven Year Rule and the exception obtained by the recording industry, resulted in the introduction of legislation to repeal the exception. Extensive negotiations between the Recording Artists Coalition (RAC) and the Recording Industry Association of America (RIAA) failed to produce an agreement. That bill was put on hold and will be revisited in the upcoming legislative session. The last two, done jointly with the California Senate Judiciary Committee, focused on record company accounting practices. There was testimony at each of the hearings from Artists, their lawyers and managers and the RIAA as well as representatives from each of the five major record companies, Bertelsmann Music Group (BMG), EMI Record Group (EMI), Sony Music Group (SONY), Universal Music Group (UMG) and Warner Music Group (WMG).

Much like members of the public, who generally dislike politicians but love their individual representatives, Artists have respect for their record company handlers, but distrust the companies themselves and the system they operate under. They see themselves as victims of an indentured servitude system designed to keep them perpetually indebted to the companies who also own the product of their labor. Some artists expressed gratitude for the initial investments made by the record companies in their talent, but feel cheated by their meager share of the proceeds when the gamble pays off. One artist's representative went so far as to accuse the record companies of running a continuing criminal enterprise.

The record companies are genuinely appalled at the accusations and feel that they are the true victims. They are insulted that after making multi-million dollar investments in artists, few of which actually pay off, they are then held hostage by the successful few. They claim they are forced to pay large advances and otherwise accede to whims of spoiled, pampered artists who make millions, yet whine that they are oppressed. They further complain that artists should be helping fight the real enemy of digital piracy, instead of accusing record companies of thievery.

When confronted by accusations from auditors that all royalty statements under reported royalties due to the artists, representatives from all five major record conglomerates denied any wrongdoing. I was reminded of the tobacco executives standing in front of Congress and swearing that they did not believe tobacco was harmful to ones health.

No matter who you believe, there is clearly dysfunction in the relationship between artist and record company.

For many years, artists preferred to leave advocacy to the record companies and their trade association, the RIAA. This fit the artists' perception of themselves as artists and not business people. The artists stayed in the background until the RIAA needed to bring some star power to an issue. The artists were then trotted out for maximum effect and then sent back to their creative cocoons. This worked effectively until the interests of the record companies diverged from those of the artists.

In 1987, the record companies, through legislation, got the aforementioned exception from the Seven Year Rule in California. This is one of the first instances where the record companies' interests clearly diverged from those of the artists. The artists put forth no effective opposition. While some artist's representatives and the relevant labor unions opposed the legislation creating the exemption, the artists did not have an effective lobbying organization. Not one artist testified for or even participated in the opposition.

Then in 2000, the record companies again, like thieves in the night, put an amendment in a rather innocuous bill before Congress that would have taken away artists' ownership of their copyrights in the future. This was the so-called "Work for Hire Amendment." Alas, the record companies awoke the sleeping giant. A slew of artists lead by Don Henley and Sheryl Crow formed the Recording Artists

Coalition, went to Washington and had the bill overturned the very next year. No small feat in the pantheon of legislative work, which usually takes years.

Then the RIAA tried to sneak language into a bankruptcy bill before Congress that would have negatively affected artists. Again they were found out, and the amendment was removed from the final bill. In these cases, artists' interests were not just overlooked; they were purposefully trampled on by the very people who were previously thought to be protecting artists. These late night attempts at thievery have contributed to the distrust and dysfunction in the artist/record company relationship, have spawned artists' rights groups like the Recording Artists Coalition, and have sparked a fire in the artists unions such as the American Federation of Television and Radio Artists (AFTRA) and the American Federation of Musicians (AFM).

This all must be read in the context of a crisis in the recording industry. Sales are down and piracy is rampant with many of the most popular songs and albums available over the Internet for free. Artists and record companies need each other. The artists need the record companies to invest in and market their music. The fantasy of a direct relationship with the fan/consumer using technology and the Internet is just that, a fantasy. Record companies obviously need the artists to make music, but also to be their allies in fighting piracy and the various battles with the high tech industry as evidence by the fight over royalties for streaming music over the Internet. Artists are the best representatives for the industry. They are obviously experts at communicating. The companies need artists to help them communicate with fans and customers to determine what the best business models and formats are to deal with current and future technology changes.

Aside from the merits of the various issues which will be discussed here, one of the most significant issues from the artist perspective is trust. The RIAA has become expert at the late night amendment and at managing the legislative process to its benefit. Normally this is considered a good trait for a trade association. In cases where there is a clear separation of interests, like pro-choice vs. anti-choice, pro-gun vs. anti-gun, this behavior is necessary for survival. To the victor go the spoils. However, in the case of artist related issues, the artists and the record companies are supposed to be allies and partners. It is as if one spouse began secretly moving assets in order to benefit him or herself to the detriment of the other spouse. Upon discovery, it is bound to generate resentment, anger and possibly revolt.

There are actually two ongoing issues upon which the artists and the companies fundamentally disagree: the Seven Year Rule and Accounting

Practices. Once these two issues are solved, artist and record companies can join together to fight their mutual enemies.

At the last hearing, one of my colleagues, Jim Battin, expressed a warning to the record labels and the artists to be wary of legislative solutions to the problems of an industry whose inner working are a mystery to most. Such situations provide the possibility of legislatively imposed solutions that make neither party happy. Some issues like the Seven Year Rule and copyright issues are statutory in nature and must be solved by legislation. Others, like the structure and nature of contracts are less appropriate, but nevertheless subject to legislative solutions. Still other issues like the penalties for certain type of behavior or breaches of record contracts are appropriate for legislative solutions.

Seven Year Rule

Section 2855(b) of the California Labor Code provides an exception for recording contracts which serves to virtually remove any limits on their length. With the average recording contract for five to seven albums, and marketing cycles of two years or more, recording contracts can reach 25 years. Record companies argue that artists are able to renegotiate if they are successful and are well paid. However, even with the availability of renegotiation, without there being a limit to the contracts, artists are never able to receive their "full value in marketplace," as the courts mandated in Olivia de Havilland vs. Warner Brothers, because they are still under contract to the record company during these renegotiations. The record company is in the best position, because they don't have to do anything. Even though successful artists can be paid very well, "a gilded cage is a cage nevertheless."

It seems clear that there should be some limit to recording contracts. Otherwise a record contract is a well-paid form of indentured servitude . . . exactly what the Seven Year Rule was designed to prevent.

From the early part of the last century up to 1987, California believed seven years to be an appropriate time period. We should remove the 1987 exception. Record companies will not lose their superstar artists. With control over the artist's catalog, the incumbent record company can always make the most lucrative deal. Additionally, they would have the opportunity to pick up established artists from other companies. Because these artists would be able to get their full value in the marketplace, the companies may pay more for the proven artists. However, astute record company executives will also be able to find the under appreciated pearls. Carlos Santana is just the latest example of an artist who career was reinvigorated by working with a fresh creative team at a new record company. The comeback album of an established artist on a new record company is a historic staple of the record business.

Because it is statutory in nature, this is an issue that must be solved by legislation. The issue will be revisited by the California legislature in the coming year. While the Seven Year Rule is currently a part of California law, it will be introduced by the Speaker of the New York Assembly in the coming legislative session and is currently being considered for introduction in other states, such as Georgia, Texas, Florida and Tennessee.

Accounting Practices

The accounting practices controversy really has a number of sub-categories. These include the structure of contracts, recoupment, the lack of penalties for underpayment, restrictions on the right to audit, and royalty provisions that are purposefully vague and subject to slanted interpretation.

Recoupment

One of the biggest complaints of artists is that recording contracts are structured so that most of the major costs, including the costs of recording the record, are recouped against the artist's royalties. Further, at least half of the costs of videos and other major promotional costs are charged against the artist's share. As a result, for a modestly successful record, while the record company makes the upfront investment and takes the financial risk, the artist actually pays for most of the costs. This is seen by artists as patently unfair, particularly considering that the record companies own the fruits of the artists' labor, the master recordings. It is as if one made mortgage payments but never took title to the house. No other industry with royalty artists operates this way.

Government is usually loath to actually dictate the terms of contracts between private parties, but when the relative leverage of the parties significantly favors one party, government often steps in to protect the party with the least leverage.

Record companies should consider going back to the old practice of separating the personal advance and recording/video/promotion and marketing costs. Contracts should be structured such that the personal advance is recouped against the artist's royalties, but recording costs under a certain amount, say $250,000, are not recouped. Videos, major marketing and independent promotion costs could be treated the same.

This would increase royalty payments to successful artists, but more importantly would also encourage artists to be more efficient and would significantly reduce the multi-million dollar upfront investments made in artists by the company. This in turn would reduce the record company's risk, reduce the amount lost on unsuccessful artists, and increase the record company's bottom line. This creates a positive atmosphere for everyone involved. This reduced risk would also make up for any increased payments due to the reversion back to the original Seven Year Rule.

There will still be selfish and overindulgent artists, but they would pay the price for such overindulgence. Serious dedicated artists, who show gratitude for the chance that record companies are giving them and show respect for the amount of the record company investment, would be rewarded.

Royalty Accounting

In our legislative hearings it was clear that artists feel they are being systematically cheated out of their royalties. They feel that after they are forced to sign contracts that favor the record company, they are not even paid the royalties they are due under the contract.

The record companies counter that the contracts are negotiated on behalf of artists by very skilled lawyers who would not have their clients sign substandard contracts and that they accurately pay all royalties due.

When questioned, top artists' lawyers unanimously stated that even with their high-powered client lists, they do not have the leverage, when negotiating for a new artist, to change the contract offered other than marginally. Given that the five major companies release over 90% of commercial music, the artist is faced with signing the standard agreement or giving up a career as a music artist. Most sign the agreement. This dynamic makes it even more distasteful to then not get the full amount due under the contract. Even when artists audit, they are forced by their contracts to go to court in order to get the full amount due. As a result they often settle for some amount significantly less than the total amount due. This generates even more resentment among the artists. They have to pay for an audit and go to court in order get what they were rightfully due anyway. They frequently end up with significantly less than was due.

While artists' auditors stated that all audits find underpayment, it is also true that they are paid to find those underpayments. They also self-select which audits actually to do. However it is clear that few artists can afford to audit. There are huge numbers of royalty artists whose royalties are significant, but do not rise to the level that they can afford to pay a minimum

$15,000 retainer to initiate an audit.

Whichever side you believe, there is clearly a problem. Even if you take the record companies at their word, at best they have serious perception problem that is poisoning the well. If one spouse truly believes the other is cheating, the truth of the matter irrelevant. Even an unfounded belief will poison the marriage creating a dysfunctional family. It is incumbent on the accused spouse, if he or she wants the marriage to work, to assure the other spouse of his or her fidelity.

The hearings showed that at the very least there is purposeful neglect on the part of record companies' accounting departments. Under questioning at the last hearing, royalty accountants at the record companies admitted that there are "royalty policies" which often override the provisions of an artist's contact. These policies surely favor the record company more than the artists. With companies issuing sometimes tens of thousand of statements each period, it is understandably complicated to take into account the nuances detailed in the language of each contract. But that is what they are supposed to do. Indeed that is what they have promised by contract they would do. In reality, record companies have traded away accurate royalty accounting to artists for operational efficiency in their accounting departments.

It appears many artists are routinely underpaid royalties they are rightfully due. While superstars can afford to audit and find these discrepancies, the 95% of artist who can't or don't audit or for whom the amounts don't justify an audit are taken advantage of. This results in windfalls for the record companies. The recording contract will also usually state that if the artist does not file notice of an audit or claim within two years of the date of the royalty statement then they are forever foreclosed from challenging the accuracy of that statement. Thus, the artist who has a steady but modest stream of record sales will never be paid what he or she is actually due.

This system is made possible by contracts that essentially preclude any penalties for the underpayment of royalties. Each recording contract contains a clause which essentially states that the record company, no matter how egregious its behavior, will never be liable for more than the amount of royalties due, and will not have been deemed to breach the contract until a court determines the amount due and then only if the record companies fails to heed the court's order. While there is an exception for outright fraud, the artist must prove a specific intent to be fraudulent on the part of the record company. Specific intent is one of the hardest things to prove in court. Thus, the record company is free to be purposefully negligent in its royalty accounting without penalty.

The record company, no matter how bad its behavior, suffers no penalty for underpayment. Thus, there is an incentive for the record company to play hide the ball. If it gets caught, there is no penalty. If it does not get caught, it gets to keep the underpayment.

Two potential solutions have been proposed to remedy this situation. One is to legislatively confirm that the duty to pay royalties to a recording artist is a fiduciary duty. The other is to legislatively create penalties for a pattern and practice of underpayment of royalties.

Fiduciary Duty

Making the duty to pay royalties a fiduciary duty essentially means that artists would have a moral right, in addition to the contractual right, to receive fair and accurate royalty statements and would have additional remedies available to them to enforce their rights, including, potentially having the contract end. Normally contractual relationships are not subject to fiduciary duties, the theory being that parties to contracts have other remedies, primarily the right to sue for breach of contract, available to them. There have been examples however, where contractual relationships have given rise to fiduciary duties. This would happen in a circumstance where one party has sole control over the information necessary to determine if there was a breach. If one enters into a contract to have a bathroom built in one's house, one has the means to inspect the job to find out if there is a breach. In the case of record contracts, the record company has sole control over sales and accounting data. The artist has no easily accessible and independent means to judge whether or not the royalty statement is accurate or there is a breach. While there is a right to audit, it is an expensive and time consuming process and in most contracts is severely limited so as to make it incomplete at best. While the fiduciary duty has not been specifically held by courts to arise in recording contracts, the facts and circumstances of recording agreements suggest that the fiduciary relationship is applicable. This can easily be confirmed by simple legislation.

Record companies argue that artists and their representatives would use the fiduciary duty as a lever to wring more money out of the record company or ultimately to get out of the recording contract. While I am sure the more aggressive artist's representative or a very angry artist would attempt to do so, this approach would only work if the record company has engaged in deceitful behavior by not paying royalties due. In any case, the statute could easily be drafted to preclude frivolous claims or claims for insubstantial or immaterial breaches. The situation where the parties have good faith differences in interpretation of a clause in the contract could be addressed similarly.

Penalties

Another potential solution is to create statutory penalties for underpayment of royalties similar to bad faith provisions currently applicable to the insurance industry. The insurance industry relationship with insureds is very similar to record companies' relationships with their royalty artists. The insurance company is contractually obligated to compensate its insureds for their covered losses subject to the contract between the parties. The record companies are contractually obligated to pay royalties to artists subject to the contract. In both cases, the parties may have different opinions as to the amount of compensation due. In the case of insurance companies, prior to the enactment of bad faith legislation, the insurance company would as a matter of course and policy, simply stonewall the insured by making low-ball offers to settle, requiring the insured to go to court to receive anything that resembles what the insured is rightfully due. The insured could rarely afford the costs or the time to go to court and was forced to settle for a fraction of the amount due.

The record contract, in the case of a dispute, similarly forces the artist to go to court to receive the full amount rightfully owed. To solve this problem, legislation was enacted calling for, in most cases, treble damages and attorneys' fees, if the insurance companies were found to have engaged in bad faith. In order to sustain the claim of bad faith the insured must first prove the claim in court and then the court must find that the insurance company acted in bad faith by improperly denying the claim or making a ridiculously low offer to settle. The threat of treble damages keeps the insurance companies honest. Few frivolous bad faith claims are made because it requires insureds to first prove their claims in court. If there truly is bad faith, the artist has the incentive to pursue it because the treble damages cover the risk and cost of going to court. Again, good faith disagreements in interpretation are not grounds for a bad faith claim. This approach is also valuable because it has been in place for some time and most of the kinks have been worked out and the loopholes closed.

This would be an effective way to encourage record companies to accurately account while preventing artists from using these protections against the record companies in bad faith themselves.

There is also the question of what artists allege is systematic underreporting. Neither the fiduciary duty nor the bad faith provisions would protect artists from a system whereby relatively small amounts in each individual case but large amounts when aggregated are routinely underreported. Such is the case when, for the sake of efficiency, "royalty policies" are regularly substituted for contractual requirements. One would have to audit each and every royalty statement to receive the proper payment. When artists earn stable but modest amounts that don't justify auditing, they will never be paid properly. A potential solution is to legislatively create a penalty of treble damages for those companies that routinely and systematically have a "pattern and practice" of underreporting royalties. Again, such a statute could be drafted to curtail its use in a frivolous manner by artists.

If, as record companies insist, they do not engage in the bad behavior alleged by the artists, how can they oppose increased penalties for bad behavior?

Audits

Overbearing restrictions on the right to audit are another reason artists have little confidence in the current royalty system. The record companies have a legitimate interest in the time, place and manner of the conduct of audits in order to limit disruption of their business and to prevent frivolous use of the audit rights.

The purpose of an audit is to give royalty recipients confidence that they are being accounted to properly by allowing them to check the figures they are being provided. If, as is the case in the recording industry, the right to audit is severely limited, then it cannot serve the purpose of instilling confidence and good will. Relaxation of these audit restrictions will cost record companies nothing, if, as they claim, their reporting is accurate. It will however instill confidence in the artists.

Almost all recording agreements prevent the artist from auditing manufacturing records, general ledger records or foreign records. Manufacturing records are the basis of every audit in the real world. Manufactured units less inventory units equals sales. This is auditing 101. Similarly, examination of the general ledger records verifies that the sales figures reported are the same as sales figures booked by the company in their internal accounting records. This lack of information coupled with the inability to see any records from foreign sales makes it absolutely impossible to verify sales figures upon which royalties are calculated. As a result, the artist is forced to accept on faith that the sales figures reported by the record company are accurate. Therefore, the so-called right to audit in recording contracts is limited to attempting to ascertain whether or not the proper royalty rates are applied to the sales figures reported and which cannot independently be verified.

Additionally most recording agreements place limitations on who the artist can engage to perform an audit. The most problematic of these restrictions are the prohibition against hiring an auditor on a contingency fee basis and the prohibition against hiring an auditor who is also performing an audit of the same company on behalf of another artist. These restrictions serve to both drive up the costs of an audit and insure that an artist must put up a cash retainer in order to engage an auditor. Artists who earn modest royalties have to take a large gamble in deciding whether the cost of an audit is worth the risk in the context of how large the potential recovery might be. Only very successful artists can afford that gamble. As a result, it is impossible for artists earning modest amounts to verify the accuracy of their royalty statements. These artists never get their due.

Assuming again, that the record companies generally account properly, relaxing these restrictions would not result in increased royalty payments. It would however result in a short term increase in the company's own audit related costs due to an increased number of audits. The increase in such costs resulting from relaxing the prohibition against contingency audits would be offset by a reduction in costs by allowing one auditor to examine the records once on behalf of multiple artists.

In the last hearing, a record company executive testified that his company settled all audit claims for an average of four percent of the claims. If this is true, than after an initial short term jump, the number of audits would revert back to its initial level because the audits would return little in recovery and would not be cost effective for the artists and their auditors.

As a result, record companies could actually reduce audit related costs by relaxing audit restrictions. They would also remove a major complaint of artists and create a better atmosphere for working together on other issues where their interests are aligned.

Structure

Underpinning all of this is the antiquated structure of recording agreements. Recording agreements are outdated and unnecessarily complicated contracts which can be up to 80 pages long. Many of the clauses were first drafted in the early part of the last century when music was done on acetate or when a 78 rpm record shattered into pieces when dropped. Some of these clauses are irrelevant in today's music industry; others are just complete fictions. With corporate accounting scandals increasing daily, transparency is the order of the day. A more transparent and simple system would save money for the record companies by reducing royalty accounting costs. The numbers would easily be analyzed and verified and would provide goodwill with the artists by removing many of the issues which form the basis of claims in an audit.

For instance, almost all recording agreements contain a "packaging" or "container" deduction, calling for a reduction in the artist's royalties of between 15% and 25%. This is rooted in days when records were sold in brown paper sleeves, and actual covers with artwork created additional costs for the record company. A compact disc actually costs less than $1.00 to manufacture. Assuming a relatively low $15.00 suggested retail price and a 15% deduction, the artist is being charged $2.25 for the manufacture of a CD that costs $1.00 to make. In addition to paying for the recording and marketing of the CD, the artist is actually paying for its manufacture and providing a tidy profit to the record company in the process.

Many contracts today still have a reduction in royalties for compact discs. This is rooted in a time when compact discs were first introduced and cassette tapes and albums were the dominant formats. Because their volume was not high, it cost more to make a compact disc. Now of course, compact discs are the dominant format, few cassette tapes are sold, and it is next to impossible to buy a vinyl album. This is clearly not relevant today.

There are also different royalty rates, sometimes expressed as a percentage royalty deduction, for sales in foreign countries. This is rooted in the era when most record companies licensed their records to independently owned foreign distribution companies. Today, the five major music companies, which release well over 90% of commercial music, all have wholly owned subsidiaries handling distribution in foreign countries. These varying rates complicate matters unnecessarily and support a structure that no longer exists.

There is also a deduction for so-called "free goods". While this deduction has its origins in the practice of giving promotional copies to record stores, the giving of free goods today is just a way of giving the record store a price discount. The record company sells 85 records at $10.00 and gives away fifteen records as "free goods" receiving $850 for 100 records. Rather than operate with this fiction, the record company could simply say that they sold 100 records for $8.50 each, arriving at the same revenue of $850.

Confusing matters more is that many of the record companies pay royalties on "Suggested Retail List Price" (slrp). This slrp is a complete fiction. Since record companies are all wholesalers of records, they receive payment at the wholesale price. It would be simpler just to pay royalties based on the wholesale price that is verifiable as the amount received by record company for the sale of the records.

These complicated structures are a haven for those who would purposely cheat artists. Auditors at our hearing on accounting practices told us that most of the "scams" used to cheat artists are rooted in how the various deductions are applied. The record industry should get rid of all of these deductions and pay a straight royalty. This change would cost record companies nothing. They would simple calculate the true net royalty and remove the deductions clauses. In addition to increased efficiency and accuracy of reporting, a streamlining of royalty provisions would remove potential areas of conflict and instantly take away many of the possible complaints by artists.

When questioned about this, record companies have responded that artists' representatives don't want streamlining, because the representative and the artist would have to admit that the net royalty is actually twelve percent instead of the eighteen percent gross royalty. I posed this question to several top music lawyers and managers. All of them stated that with one or two superstar exceptions they have not been able to negotiate streamlined contracts with record companies. Further, they all said they would rather have the streamlined net royalty in the contract. Most of them use the net royalty when assessing the various contract points during a negotiation anyway.

Conclusion

The suggestions in this report would help solve many of the problems that exist between artists and record companies. This would create a mutually beneficial atmosphere of trust that would create a strong industry to fight mutual enemies like illegal downloading.

I urge the record companies to consider the structural and accounting changes on their own to avoid legislation that would mandate contract terms, and to engage in discussions with State Legislatures and Congress about enacting those suggestions that require legislative action.

It should be noted that BMG recently announced a streamlining of its royalty accounting system. However, BMG's announcement was almost overshadowed by the conspicuous lack of interest by the other major record companies in following suit. BMG should be applauded for a move in the right direction. It remains to be seen, however, whether the new BMG contracts will really be an improvement for artists. Even if the royalty process is streamlined, without changes in the audit restrictions, the changes will ring hollow.

As this report was being prepared, an internal memo from UMG, the largest of the big five record companies, surfaced which indicated an intent on the part of UMG to both streamline royalties and eliminate audit restrictions. It was further reported that the impetus for that change was our State Senate hearings. The company has not yet affirmatively announced that it would implement those suggestions. However, assuming that it implements the memo, it would be a significant recognition by the largest company of the need to foster trust in their artists by making transparency a priority.

Of concern in the BMG announcement is its stated interest in participating in “additional revenue streams.” An example of this new trend is the recently reported Robbie Williams contract with EMI, by which it will participate in revenue streams other than records like music publishing, concerts and merchandising. While artists and record companies are free to make whatever arrangement they wish, it should be clear that artists should not have to sell interests in additional revenue streams in order to get the industry to provide fair and transparent contracts.

This industry should not revert back to the old practice of demanding interests in the artist's management, publishing and merchandising as a condition of obtaining a record contract. That would truly be a backward move toward indentured servitude.

Artists and record companies have so many interests where their interests are aligned. These include:

* consolidation in the radio industry
* independent promotion costs

* public performance royalties for broadcast radio play
* extension of the copyright term
* payments for Internet streaming by small webcasters
* protection of the First Amendment rights of music artists
* protections against piracy and illegal downloading
* creation of new business models for Internet distribution

After clearing up their conflicts, artists and record labels can work together to improve the industry for all concerned.

The Select Committee on the Entertainment Industry is committed to investigating and assisting in solutions for these issues.

Senator Kevin Murray was first elected in 1994 to the California State Assembly to represent the 47th District. After serving two terms, he was elected to the

California State Senate in a landslide victory to represent the 26th Senatorial District. Prior to serving in the Legislature, he practiced law in the areas of entertainment, real estate, insurance, and dependency, as well as providing consulting and management services to artists in the entertainment industry. In addition to being a member of the State Bar, Senator Murray is a licensed real estate broker. He also spent several years as a talent agent with the William Morris Agency. Senator Murray holds a Juris Doctorate from Loyola Law School (1987), a Masters in Business Administration from Loyola Marymount University (1983), and a Bachelor of Science Degree in Business Administration and Accounting from California State University, Northridge (1981). [ELR 24:7:4]

NEW LEGISLATION AND REGULATIONS

Small webcasters get break on license fees for transmissions of music recordings, as authorized by Small Webcaster Settlement Act of 2002

Small webcasters have been given a significant break on the license fees they must pay to transmit music recordings. The break was a holiday gift from record companies and recording artists – one they were "strongly encouraged" to give, by Congress itself.

Last July, the Librarian of Congress decided that all webcasters should pay 0.07 cents per listener (70 cents per thousand listeners) per song, whether or not they had any revenues (ELR 24:3:6). Even that decision was a victory for webcasters, because it reduced by half the license fees that earlier had been recommended by a Copyright Arbitration Royalty Panel (ELR 23:10:12).

Now though, webcasters (who wish to do so) may choose instead to pay (for 1998 through 2002) the greater of 5% of their expenses or 8% of their revenues, and then (for 2003 and 2004) the greater of 7% of their expenses or 10% of the first $250,000 in revenues and 12% of any revenues exceeding $250,000.

This alternate license fee is the result of an agreement reached between small webcasters and SoundExchange, an RIAA-owned organization that collects and distributes digital performance and ephemeral recording license fees on behalf of record companies and recording artists (including non-featured musicians and vocalists).

The agreement was authorized by Congress in the Small Webcaster Settlement Act of 2002.

The lineage of the small webcaster-SoundExchange agreement is unusually convoluted. Until 1995, record companies and recording artists had no performance rights at all, and thus were not paid by anyone, when their recordings were played. (Songwriters and music publishers were paid; but not record companies or artists.)

Then, in 1995, Congress passed the Digital Performance Right in Sound Recordings Act. That Act gave record companies and recording artists a limited performance right – one that was limited to digital performances of their recordings (ELR 17:6:3). The Digital Performance Act was complicated. Some digital performances were exempted and thus do not require any license at all; other digital performances require negotiated licenses that must be obtained directly from record companies; and still other performances are eligible for statutory licenses. The license fees covered by the SoundExchange agreement and the Small Webcaster Settlement Act are for statutory licenses only.

Though the 1995 Digital Performance Act created a statutory license (for some digital performances), Congress did not set the license fee itself. Instead, the Act authorized voluntary license agreements to be reached by record companies and those who wished to perform recordings digitally. But the Act also provided that if voluntary agreements were not reached, license fees would be set by a Copyright Arbitration Royalty Panel.

As things turned out, no agreement was reached on the statutory license fee, at first. And that is why a Copyright Arbitration Royalty Panel was convened and eventually recommended the fee that the Librarian of Congress then chopped in half. Neither webcasters nor the record companies were satisfied with the Librarian's decision, and both sides have appealed to the Court of Appeals. In the meantime, though, small webcasters also went to Congress, claiming that the fee set by the Librarian – though only half of what the Copyright Arbitration Royalty Panel had recommended – would put them out of business.

The Small Webcaster Settlement Act of 2002 is Congress' response on behalf of small webcasters. The Act authorized – but did not obligate – SoundExchange to negotiate an agreement that would be binding on all record companies and performers entitled to royalties. And the Act provided that any such agreement "shall include" provisions allowing small webcasters to pay license fees based on a percentage of their revenues or expenses – an option neither the Copyright Arbitration Royalty Panel nor the Librarian of Congress had provided for.

The agreement announced by SoundExchange and representatives of small webcasters (shortly before this issue of the Entertainment Law Reporter went to press) is the agreement authorized by the Small

Webcaster Settlement Act.

Editor's note: The Act raises at least two questions:

1. Why was an act of Congress a necessary prelude to the recently announced agreement? Record companies and music publishers frequently (indeed, usually) reach privately negotiated agreements concerning mechanical license fees that differ from the compulsory license provided for in the Copyright Act; and they do so without any statutory authorization.

2. Why did SoundExchange voluntarily agreed to a license fee formula that will produce less income for record companies and recording artists than they would have received pursuant to the decision of the Librarian of Congress?

There seem to be at least two answers to the first of these questions, and they are hinted at in the Act. First, the agreement is binding on all record companies and recording artists (insofar as royalties from agreeing small webcasters are concerned). This result could not have been accomplished without legislation, because it reduces the rights previously given to record companies and artists by the 1995 Digital Performance Act.

Second, the Act relieves SoundExchange from any potential liability to record companies and artists for negotiating terms less favorable than they had already won from the Librarian of Congress.

There also seem to be two answers to the second question, and Congress was unusually frank about one of the answers. In a section of the Act titled "Findings," Congress admits that SoundExchange was willing to reach an agreement with small webcasters as a result of "the strong encouragement of Congress. . . ."

The second answer may be that Congress stipulated, in the Act's "Findings," that any agreement reached by SoundExchange with small webcasters would "not be . . . taken into account in any governmental proceeding involving the setting or adjustment of the royalties payable . . ." for digital performances, not even by the Court of Appeals that is reviewing the decision of the Librarian of Congress. In other words, SoundExchange may view the license fees provided for by the agreement as nothing more than temporary. And if that turns out to be so, responding to "the strong encouragement of Congress" will prove to have been a wise strategic move; because if that "encouragement" had been ignored, Congress may have enacted a small webcasters royalty rate itself – one that couldn't be increased by appeal to the Librarian of Congress or even to the courts.

Small Webcaster Settlement Act of 2002, H.R. 5469 (2002), available at www.copyright.gov/legislation; Rates and Terms Available to Certain Small

Commercial Webcasters (Dec. 13, 2002), available at http://www.soundexchange.com/Rates_Terms.pdf [ELR 24:7:11]

Copyright Act is amended to permit unlicensed Internet transmission of copyrighted works for nonprofit distant education

Educators are pretty good lobbyists – not for pay, but for other things that don't cost governments money. Among the things that educators got from the federal government, years ago, are exemptions from certain licensing requirements of the Copyright Act. Back in 1976, when the current Act was passed, Congress gave nonprofit educators the right to perform copyrighted works of all kinds in classrooms, and the right to transmit nondramatic literary and musical works to classrooms by closed-circuit TV, without any licenses whatsoever.

Today, closed-circuit TV is an old technology. Distant education is the latest rage, but it'll be done over the Internet, not by television. As a result, the exemptions Congress gave educators in 1976 aren't nearly broad enough for the 21st Century. And Congress has done something about it.

Congress has amended the Copyright Act to permit nonprofit educational instructions to conduct distant education over the Internet, using copyrighted works of almost every kind, without licenses from copyright owners. The types of works educators may use in this way are no longer limited to nondramatic literary and musical works; they now include movies and music. And permissible transmissions no longer have to be received in classrooms; they can be sent to students wherever they may be, including libraries, dorms, homes and coffee shops.

These changes were accomplished in a bill called the "Technology, Education, and Copyright Harmonization Act of 2002" – an unwieldy moniker until you get to its acronym: the TEACH Act. (It amends Copyright Act sections 110(2) and 112.)

The TEACH Act doesn't permit educators to post whole books or movies to their websites. It merely permits them to use amounts that are "comparable" to those "typically displayed in a live classroom setting" for such things as books, or "reasonable and limited portions" of things like movies and music.

To be eligible for the exemption, the transmission must be part of a "mediated instructional activity" – the Act's way of describing what would be a live classroom setting, in the old world of face-to-face education. This means that the Act doesn't authorize educators to replace textbooks and coursepacks with unlicensed online materials. Also, while students may be located anywhere, they have to be enrolled in the course for which the materials were posted.

Congress recognized that online transmission of copyrighted works, done for any reason, increases the risk that those works will be used and even retransmitted for other reasons. So Congress enacted "safeguards" to protect against this danger. First, the TEACH Act requires educational institutions to "institute policies" designed to promote "compliance" with copyright law, and to inform faculty, students and staff concerning their copyright responsibilities. Of greater practical significance, educational institutions are required to use "technological measures" to prevent students from retaining transmitted works after class sessions end and to prevent students from retransmitting those works to others.

Of course, in order to transmit copyrighted works, they must be copied to servers and temporarily stored in computers' random access memories. And the TEACH Act contains provisions that specifically authorize both of these things.

Finally, Congress made it plain that the TEACH Act does not supercede or replace the fair use doctrine. This
means that educational institutions that do some things the Act does not authorize are nevertheless permitted to claim that what they've done is separately permitted by the fair use doctrine.

The TEACH Act has a two limitations built into it. First, not every nonprofit educational institution will be able to take advantage of it. Recognizing that "nonprofit educational" status is not difficult to come by, the benefits of the Act are available only to nonprofit educational institutions that are "accredited" as well. Second, the Act does not permit the unlicensed transmission of two types of works: those that are created "primarily" to be used for Internet instruction; and "secure tests" (like the SAT).

Technology, Education, and Copyright Harmonization Act of 2002, S. 487 incorporated into H.R. 2215 (2002), available at www.copyright.gov/legislation [ELR 24:7:12]

IN THE NEWS

Jury acquits Russian software company ElcomSoft of charges that it criminally violated DMCA by selling program that circumvents Adobe eBook encryption

The government won the first round in its criminal prosecution against the ElcomSoft, but ultimately lost the case. A jury has acquitted the Russian software company of charges that it violated the anti-circumvention provisions of the Digital Millennium Copyright Act by selling a computer program called “Advanced eBook Processor.”

Though its name makes it sound like a general-purpose program, “Advanced eBook Processor” does just one thing: it circumvents Adobe eBook encryption. Adobe eBook technology gives publishers the ability to prevent unauthorized copying, distribution and printing of their books. Thus, ElcomSoft's program enables its users to infringe the copyrights to eBooks by making and distributing unauthorized copies.

In the pre-trial stages of the case, federal District Judge Ronald Whyte denied ElcomSoft’s motion to dismiss the prosecution. The motion was based on the company’s argument that the anti-circumvention provisions of the DMCA are unconstitutional. But in a lengthy and thoughtful opinion, Judge Whyte rejected that argument (ELR 24:5:8).

Since the jury's "not guilty" verdict was not explained in a written decision (jury verdicts never are), there is no formal judicial record of why the jury acquitted ElcomSoft. Observers, however, have speculated that the result turned on a jury instruction given by Judge Whyte. The key instruction required the jury to find that ElcomSoft both knew and intended to violate the law when it sold its program, in order for the jury to convict the company. ElcomSoft testified that it didn't know its program violated U.S. law. The jury may have believed that testimony, because the copyright law of ElcomSoft's own country, Russia, does not yet contain anti-circumvention provisions. [ELR 24:7:14]

Random House and RosettaBooks settle e-book lawsuit

RosettaBooks and Random House have settled the lawsuit filed by Random House last year complaining about RosettaBooks' publication of electronic editions of several Random House titles.

Early in the case, Random House sought a preliminary injunction that would have barred RosettaBooks from continuing to issue electronic versions of books first published by Random House. But federal District Judge Sidney Stein denied Random House's motion for such an injunction (ELR 23:4:10), and in a brief, per curiam decision, the Court of Appeals affirmed that ruling (ELR 23:10:16).

The settlement does not require a financial payment to be made by either party. Instead, the two companies have agreed to enter into licensing agreements by which Random House will grant to RosettaBooks the exclusive right to publish e-book editions of mutually agreed-upon titles. For each of the titles it publishes, RosettaBooks will pay an advance and a royalty to the authors and Random House, much as paperback and audio book publisher compensate authors and hardcover publishers for paperback and audio publishing rights. Each electronic license will be for three years, with RosettaBooks having the option to renew for an additional three years.

RosettaBooks will continue to offer electronic editions of the William Styron, Robert B. Parker, and Kurt Vonnegut books that were the subject of the litigation. [ELR 24:7:14]

Recording artists settle lawsuit against AFTRA Health and Retirement Funds

Recording artists Sam Moore, Curtis Mayfield, Brian Hyland and others have settled their lawsuit against the AFTRA Health and Retirement Funds – a lawsuit triggered by the artists' assertion that their record companies underpaid health and retirement benefits due the AFTRA Funds pursuant to a collective bargaining agreement known as the "Phono Code."

Trustees of the Funds could have sued the record companies themselves, but didn't; so originally, the artists sued their record companies, as well as the Funds. The artists' claims against their record companies was dismissed on the grounds that under federal law, beneficiaries (like recording artists) do not have standing to sue employers (like record companies); and that ruling was affirmed on appeal

(ELR 22:6:14).

Concerned perhaps that such a conclusion would make it appear that beneficiaries do not have any remedy if trustees refuse to sue for delinquent contributions, the

Court of Appeals noted that beneficiaries do have a remedy in such cases: if the trustees' refusal is unreasonable and in breach of their fiduciary duty to the plan, beneficiaries may sue the trustees for losses resulting from their refusal. Sam Moore and his fellow artists had done that as well; and those are the claims that now have been settled. [ELR 24:7:14]

INTERNATIONAL DEVELOPMENTS

Australia's Channel Ten infringed Channel Nine's copyrights to several of its television broadcasts by rebroadcasting segments as part of Ten's roundtable discussion program "The Panel," Federal Court of Australia rules

"The Panel" is a late night program broadcast weekly by Australia's Channel Ten. The program's title reflects its format: a panel of well-known celebrities sits around an oval desk and discusses current affairs, sport, the arts and other topics, in a humorous and irreverent way. The show is "punctuated" by clips recorded from other television programs, many of which are not Channel Ten's own shows, but instead are those of a competing network.

Australia's Channel Nine is that competing network, and though "The Panel" may be funny, Channel Nine was not amused by "The Panel's" unauthorized use of clips from some 20 of Nine's programs. Nine's displeasure was expressed in a copyright infringement lawsuit in the Federal Court of Australia in Sydney.

The clips used by "The Panel" were short, ranging from eight to forty-two seconds each. Perhaps for that reason, the trial court judge ruled in Channel Ten's favor, holding that "The Panel" had not used a "substantial" portion of Channel Nine's broadcasts. Moreover, the trial judge held that "The Panel's" use of those clips was excused by Australian copyright law's "fair dealing" defense.

Channel Nine did better in the second round of the case, though it didn't win a complete reversal. A three-judge appellate panel of the Federal Court of Australia held that Channel Ten did infringe Channel

Nine's copyrights in its broadcasts by rebroadcasting unlicensed clips on "The Panel."

In a ruling that appears to be a precedent in Australia, the appellate panel held that "Re-broadcasting [by Channel Ten] of any of the actual images and sounds . . . broadcast [by Channel Nine] is an infringement of copyright . . . , whether or not the subject matter of the re-broadcast is characterised as a programme, a segment of a programme, an advertisement, a station break or a station logo, or as a substantial part of any of those things."

The "fair dealing" part of the case was more difficult, because it was more fact-specific. Under Australian copyright law, the use of a copyrighted broadcast is "fair dealing" if the use is for criticism or news reporting. The three judges of the appellate panel could not completely agree with one another about whether Channel Ten's use of clips from Channel

Nine's programs was fair dealing. In the end though they were able to agree that Ten's use of eleven clips from several different Channel Nine programs was not fair dealing, because those uses were not for criticism or news reporting.

As a result, the case has been remanded to the trial judge for reconsideration.

Channel Nine was represented by A.J.L. Bannon SC and D.T. Kell, and Solicitors Gilbert & Tobin. Channel Ten was represented by J.M. Ireland QC, R. Cobden and C. Dimitriadis, and Solicitors Blake Dawson Waldron.

TCN Channel Nine Pty Ltd v Network Ten Pty Limited, [2002] FCAFC 146 (2002), available at www.austlii.edu.au/au/cases/cth/FCAFC/2002/146.html [ELR 24:7:16]

RECENT CASES

"Monsters, Inc." did not infringe copyright to poem about monster who is afraid of boy, federal court rules, because similarities were unprotected ideas

Disney and Pixar have won the dismissal of a copyright infringement suit filed against them by Lori Madrid, a Wyoming resident who claimed that the movie "Monsters, Inc." infringed the copyright to her poem "There's a Boy in My Closet."

Madrid's twenty-eight line poem is about a monster who's afraid of a boy the monster has found in his closet at bedtime. Madrid sent her poem to Chronicle Books in 1999, hoping that Chronicle would publish it. Chronicle never responded to Madrid. But when Disney released "Monsters, Inc." in 2001, Chronicle published the book "The Art of Monsters, Inc." Madrid theorized that Chronicle gave Disney her poem, and was rewarded with book publishing rights, even though Disney owns its own competing publisher, Hyperion Books.

Disney, Pixar and Chronicle (which also was named as a defendant) quickly responded to Madrid's suit with a motion for summary judgment. Their motion has been granted. Federal District Judge Clarence Brimmer rejected Madrid's argument that she should be given time to conduct discovery, before the summary judgment motion was heard. And Judge Brimmer held that the only similarities between Madrid's poem and the movie were similarities of unprotected ideas and scenes a faire.

Madrid wanted to do discovery to support her allegation that Chronicle gave Disney her poem, and to support her claim that the movie was derived from the poem as a factual matter. Judge Brimmer, however, ruled that discovery on those points was not necessary, because Madrid was not entitled to prevail, even if he assumed that Chronicle did give Disney the poem, and even if he assumed that drafts of the movie's scripts showed that it was derived from the poem. She would not be entitled to prevail, the judge explained, because in deciding whether the poem and the movie were "substantially similar," what matters is the two works as they were presented to the public. No circumstantial evidence was necessary "to compare two works which are plainly expressed in English," the judge ruled.

Judge Brimmer found that the similarities relied on by Madrid – monsters, a child, one in the closet of the other – are not protectible expression, but instead are unprotectible ideas. All of these things appeared in books that were published before Madrid wrote her poem, including Maurice Sendak's Where the Wild

Things Are. Moreover, the scene relied on most heavily by Madrid – involving a monster encountering a child in his closet – is an unprotectible scene a faire, the judge said, because it is "the most natural idea that flows from the idea of monsters and children."

While Madrid's poem is protected by copyright, she did not allege that the poem itself was used in the movie.

Judge Brimmer also dismissed Madrid's Lanham Act claim that she was wrongfully deprived of credit as the author of the movie's story. He held that her Lanham Act claim failed for the same reason her copyright claim failed: the poem and the movie are not substantially similar.

Madrid was represented by Beth Mary Bollinger in Spokane and Robert R. Rose III of Bagley Karpan Rose and White in Cheyenne. Pixar and Disney were represented by Terry Mackey of Hickey Mackey Evans

& Walker in Cheyenne, Steven A. Marenburg of Irell & Menella in Los Angeles, and Kennedy & Christopher in Denver. Chronicle Books was represented by Bruce Salzburg of Freudenthal Salzburg & Bonds in Cheyenne and Anthony T. Falzone of McCutchen Doyle Brown & Enersen in San Francisco.

Madrid v. Chronicle Books, 209 F.Supp.2d 1227, 2002 U.S.Dist.LEXIS 12188 (D.Wyo. 2002) [ELR 24:7:17]

Illinois appellate court affirms dismissal of lawsuit complaining that "The Sopranos" violates "Individual Dignity Clause" of state's constitution

Though "The Sopranos" is an enormously popular television series, it deeply offends some people, including members of the American Italian

Defense Association. AIDA (as the Association is commonly known) was formed to oppose "all forms of negative stereotyping and defamation of Italian Americans." According to AIDA, "The Sopranos" depicts Italian Americans in a way that violates the "Individual Dignity Clause" of the Illinois Constitution.

Indeed, the clause relied on by AIDA does condemn the portrayal of ethnic groups in a way that suggests they "lack virtue" or are criminal. But an Illinois Appellate Court has affirmed the dismissal of a lawsuit AIDA filed against Time Warner Entertainment, complaining that the series violates that clause.

In an opinion by Justice Leslie South, the appellate court held that AIDA did not have standing to file its lawsuit. It didn't, Justice South explained, because AIDA's complaint sought only declaratory relief – not damages or injunctive relief – and therefore

AIDA failed to identify any injury that could be prevented or redressed by any possible grant of relief.

The justice also held that the Illinois Declaratory Judgment Act was not a basis for AIDA's lawsuit, because that act does not authorize lawsuits "merely to resolve an abstract question, to establish a precedent, or to render a judgment to guide future potential litigation." The Act requires "a proper cause of action" to be asserted; and AIDA asserted none.

AIDA did assert that "The Sopranos" violates the "Individual Dignity Clause" of the state constitution. But Justice South held that the clause "is hortatory and does not create a cause of action."

AIDA was represented by Enrico J. Mirabelli and Michael J. Pollelle in Chicago. Time Warner Entertainment was represented by Timothy D. Elliott of Kirkland & Ellis in Chicago.

AIDA v. Time Warner Entertainment Co., 772 N.E.2d 953, 2002 Ill.App.LEXIS 536 (Ill.App. 2002) [ELR 24:7:17]

Digitally altered depiction of Times Square in "Spider-Man" movie did not infringe trademark or trade dress rights of owners of buildings or billboard companies, nor did Sony's use of laser beams to create digital images constitute trespass, federal District Court rules

Times Square was the setting for a scene in the movie "Spider-Man." But most of the buildings in that part of New York City are "advertising-encrusted," and thus not as "artistically satisfying [in] appearance" as they might have been. To remedy the situation, Sony, the movie's producer, created a digitally altered version of Times Square – one that featured actual buildings with different billboard advertisements.

Among the billboards and buildings that were altered were those at One Times Square, Two Times Square and 1600 Broadway. Sony's digital alteration replaced, for example, a Samsung billboard with a "simpler" one for USA Today.

The owners of the altered buildings were not pleased, nor were the billboard companies whose ads had been changed. They sued Sony in federal court in New York City, alleging that the movie's digital alterations violated their trademark and trade dress rights. They also claimed that Sony's use of a laser light beam to create digital images of the buildings – a preliminary step in the creation of the offending scene – amounted to an illegal trespass.

The case was assigned to federal District Judge Richard Owen, who agreed not at all with the buildings' owners and billboard companies. In a remarkably brief opinion – most of which is devoted to describing the facts and the plaintiffs' claims – Judge Owen granted Sony's motion for judgment on the pleadings.

In response to the trademark claim – a claim that required proof of consumer confusion – Judge Owen said merely: ". . . as between whom was any purchasing decision affected?"

As to the trade dress claim, the judge responded with: ". . . these buildings constantly change their advertisement dress."

And as to the trespass claim, he said just this: ". . . bouncing a laser beam off a building to create a digital photograph? Light beams bounce off plaintiffs' three buildings day and night in the city that never sleeps."

The buildings' owners and billboard companies were represented by Daniel J. Warren of Sutherland

Asbill & Brennan in Atlanta and Anthony J. Costantini of Duane Morris in New York City. Sony was represented by Bruce P. Keller of Debevoise & Plimpton in New York City.

Sherwood 48 Associates v. Sony Corp. of America, 213 F.Supp.2d 376, 2002 U.S.Dist.LEXIS 13947 (S.D.N.Y. 2002) [ELR 24:7:18]

Appeals court upholds dismissal of lawsuit against creators of "The Basketball Diaries," violent video games and adult websites, filed by parents of high school students shot to death by classmate

The parents of three Kentucky high school girls who were shot to death by a classmate have lost their lawsuit against the creators of "The Basketball

Diaries," several violent video games, and a number of adult websites. The killer, a 14-year-old freshman named Michael Carneal, owned a video of "The Basketball Diaries," was an avid player of violent video games, and also had viewed the adult websites.

In their lawsuit, the victims' parents argued that Carneal's use of the defendants' creations had desensitized him to violence and had "caused" him to commit his horrible crime. Carneal himself was convicted of murder. His victims' parents argued that the defendants too should be held liable, as a matter of negligence and products liability law.

Federal District Judge Edward Johnstone disagreed, and dismissed the parents' lawsuit in response to a defense motion for summary judgment (ELR 22:4:11). Now, in a lengthy and scholarly opinion by Judge Danny Boggs, the Court of Appeals has affirmed.

Judge Boggs reasoned that the defendants could not be held liable for negligence, because they did not owe a duty of care to Carneal's victims. They did not, the judge explained, because Carneal's violent actions were not a reasonably foreseeable result of the defendants' distribution of movies, games and Internet materials.

Moreover, imposing liability on defendants in cases like this would raise First Amendment problems. While Judge Boggs did not base his conclusion on this Constitutional ground, he did cite the First Amendment as an additional policy reason not to impose a duty of care between the defendants and the victims in this case.

The parents' products liability claim failed, because they argued that their daughters were killed as a result of the words and images distributed by the defendants – not the physical objects themselves. But the judge concluded that defendants' words and images were "not sufficiently tangible to constitute 'products.'"

The victims' parents were represented by Michael A. Breen in Bowling Green. The defendants were represented by Mark P. Bryant of Bryant & Kautz in Paducah (and many other law firms).

James v. Meow Media, Inc., 300 F.3d 683, 2002 U.S.App.LEXIS 16185 (6th Cir. 2002) [ELR 24:7:18]

Book publisher breached author's contract by rejecting high quality manuscript for economic reasons, federal appellate court rules, in case filed by legal treatise writer Rafael Chodos; but publisher's good faith rejection of unsatisfactory manuscript did not breach contract, and entitled publisher to return of author's advances, federal trial court rules in case involving thriller novelist John J. Nance

Book publishing contracts give publishers the right to reject manuscripts, and sometimes they do. When they do, the question is whether they did so in good faith and for reasons authorized by the contract. A pair of cases decided within weeks of one another, by courts on opposite sides of the country, illustrate these principles quite dramatically. In Los Angeles, legal treatise writer Rafael Chodos won a significant victory against West Publishing Company, while in New York, thriller novelist John J. Nance lost his case against St. Martin's Press.

In 1995, Chodos signed a contract with Bancroft-Whitney to write a treatise on the law of fiduciary duty. Over the next three years, he spent at least 3600 hours working on what became a 1247-page book. In the meantime, Bancroft-Whitney was acquired by West which had its own internal criteria for making publishing decisions. Unfortunately, Chodos' book did not satisfy West's criteria, for reasons unrelated to its quality. Indeed, West acknowledged that Chodos' manuscript was of "high quality." It decided not to publish the book, solely because it concluded that publishing it would be an "unprofitable venture."

Chodos sued West for breach of contract, but at first had no success. Federal District Judge Audrey Collins interpreted Chodos' contract to give West the right to consider the likelihood of a book's commercial success in deciding whether to publish it, and she concluded that West could decide not to publish it, solely for economic reasons. As a result, she granted West's motion for summary judgment.

On appeal, however, Chodos did much better. In an opinion by Judge Stephen Reinhardt, the Court of Appeals interpreted Chodos' contract quite differently. The contract gave West the right to reject Chodos' manuscript if it was not acceptable "in form and content," and it gave West the right to terminate the contract if Chodos didn't "cure" the manuscript's defects within 30 days of West's giving him written notice. Nowhere, however, did the contract give West the right to terminate for economic reasons. And Judge Reinhardt concluded that the contract could not be construed broadly to include economic reasons, because Chodos could not possibly "cure" those.

The Court of Appeals has remanded the case to the District Court with instructions to enter judgment for Chodos as to liability, and for further proceedings as to damages. Chodos' victory is especially significant for him and other authors, because of the Court of Appeals' conclusion concerning the measure of his recovery. Chodos' contract provided for a royalty of 15% of West's gross revenues from sales of his treatise. If that amount could be calculated with certainty, that's all that Chodos could have recovered. Since West decided not to publish the book, however, his royalties could not be calculated. As a result, Judge Reinhardt ruled that Chodos could recover "quantum meruit" – an amount that may be equal to the value of his professional services for the 3600 hours it took him to write the book.

Novelist John J. Nance has not fared well in his case against St. Martin's Press. His novels are aviationbased thrillers, including the New York Times bestseller Pandora's Clock, and Medusa's Child. Nance entered into a three-book contract with St. Martin's in 1997, which both parties complied with at first. That is, Nance wrote and St. Martin's published the first of the three contracted-for books, The Last Hostage. And St. Martin's paid Nance advances totaling $350,000 for the second and third books.

However, St. Martin's was not satisfied with the outline or draft for Nance's second book, Blackout. The publisher's editors worked with Nance extensively, and even provided him with their own suggested outline. But when his final manuscript was submitted, they determined that it was not satisfactory and they rejected it, as Nance's contract gave St. Martin's the right to do. The contract also gave the company the right to demand a refund of advances, and it did. A lawsuit by Nance and a counterclaim by St. Martin's followed.

St. Martin's was so confident in its position that it made a motion for summary judgment; and federal District Judge Sidney Stein has granted it.

Nance argued that Blackout was rejected, not because it lacked literary quality, but rather because Medusa's Child and The Last Hostage had sold poorly. Judge Stein observed that it "is not clear" whether rejecting a book for financial reasons would be bad faith (thus suggesting a potential conflict on this point between the Second and Ninth Circuits). But the judge said that even if it were, it wouldn't matter, because "Nance has failed to come forward, after extensive discovery in this action, with any evidence that [St. Martin's] rejected his draft due to disappointing sales of his most recent novels."

What's more, no other evidence supported an inference that St. Martin's rejected Blackout in bad faith – not even Nance's evidence that after St.

Martin's rejected the book, it was published by Penguin Putnam which paid Nance a $550,000 advance to do so.

Since Nance's contract with St. Martin's return its advances if he resold the contracted-for books to another publisher, Judge Stein awarded St. Martin's $335,000 – the $350,000 St. Martin's had advanced Nance for his second and third books, less $15,000 he already had refunded before the case was filed.

In the Chodos-West case, Rafael Chodos was represented by Hillel Chodos in Los Angeles; and West Publishing was represented by Randall Kay of Gray Cary Ware & Freidenrich in San Diego. In the Nance-St. Martin's case, John J. Nance was represented by Russell A. Smith in New York City; and St. Martin's was represented by Victor A. Kovner of Davis Wright Tremaine in New York City.

Chodos v. West Publishing Co., 292 F.3d 992, 2002

U.S.App.LEXIS 10823 (9th Cir. 2002); Nance v. Random House, Inc., 212 F.Supp.2d 268, 2002 U.S.Dist.LEXIS 14002 (S.D.N.Y. 2002) [ELR 24:7:19]

Creators of "Nicky Moonbeam" children's stories are entitled to trial on claim that their art work copyrights are infringed by covers and illustrations of "Good Night, Ernie [and] Elmo" books; but appellate court affirms dismissal of claim that story copyrights were infringed by books or by "Dragon Tales" television series

Wanda and Christopher Cavalier are the creators of "Nicky Moonbeam" children's stories and illustrations, which they submitted to Random House and the Children's Television Workshop on several occasions between 1995 and 1998. Though the

Cavaliers' material was good enough to get them face-to-face meetings, Random House and CTW rejected their submissions. And for a while, that appeared to be that.

Then, in 1999, Random House and CTW published two children's books, Good Night, Ernie and Good Night, Elmo; and CTW produced the animated television series Dragon Tales. According to the Cavaliers, the books and television series contain art work, text and characters that are virtually identical to those in the materials they had earlier submitted. The Cavaliers therefore responded with a copyright, trademark and false designation of origin lawsuit against Random House and CTW.

The Cavaliers had no success at all with their lawsuit, at first. In response to a defense motion for summary judgment, federal District Judge Carlos Moreno dismissed the case, on the grounds that the elements of the Cavaliers' works allegedly copied by Random House and CTW were not protected by copyright, and in any event, the allegedly infringing works were not substantially similar to the Cavaliers' works.

However, on appeal, the Cavaliers have salvaged some, though not all, of their case. In a decision by Judge William Fletcher, the Court of Appeals has held that the Cavaliers are entitled to a trial on two of their claims: the claim that art work on the back covers of the Good Night, Ernie [and] Elmo books infringes the Cavaliers' copyright in artwork they had proposed for the back cover of their books; and the claim that one of the illustrations in the Good Night, Ernie [and] Elmo books infringes the Cavaliers' copyright in one of their illustrations. Judge Fletcher ruled that the Cavaliers relied on protectible aspects of their illustrations; and that despite some differences between the Cavaliers' illustration and those in the Good Night, Ernie [and] Elmo books, they are similar enough that summary judgment should not have been granted with respect to them.

On the other hand, the appellate court affirmed the dismissal of the Cavaliers' other claims. Judge Fletcher ruled that although the Cavaliers' "Nicky Moonbeam" stories and the Good Night, Ernie [and] Elmo books share the same general premise, their actual narratives do not have much in common. Moreover, the judge found that the "total concept and feel" of the Cavaliers' stories was quite different than the total concept and feel of the Good Night, Ernie [and] Elmo books. He therefore concluded that the works were not substantially similar.

Judge Fletcher also affirmed the dismissal of the Cavaliers' claim that CTW's animated television series Dragon Tales infringed their copyrights. The similarities relied on by the Cavaliers to support this claim were based on themes, abstract ideas and other elements that are not protected by copyright, the judge held.

Judge Fletcher even upheld that dismissal of the Cavaliers' claim that one illustration from Good Night, Ernie infringes the copyright to an illustration of their own. He did so, because he found that significant elements in the Good Night, Ernie illustration do not appear in the Cavaliers' illustration.

The Cavaliers were represented by Martina A. Silas in Encino. Random House and CTW were represented by Stephen G. Contopulos and Bradley H. Ellis of Sidley Austin Brown & Wood in Los Angeles.

Cavalier v. Random House, Inc., 297 F.3d 815, 2002 U.S.App.LEXIS 9554 (9th Cir. 2002) [ELR 24:7:20]

Federal court refuses to enjoin CuresNow from using "Harry and Louise" television commercials to oppose anti-cloning legislation, even though "Harry and Louise" commercials were first created by CuresNow's public relations firm for Health Insurance Association of America

The question of who owns an advertising campaign – the client or the agency that creates it – is an important one that should be decided before the campaign is created. That is the lesson to be learned from the initial decision in a lawsuit filed by the Health Insurance Association of America against its former public relations firm, Goddard Claussen Porter Novelli, and Goddard Claussen's new client, CuresNow.

At issue in the case is ownership of a "Harry and Louise" series of television commercials created in

1993 by Goddard Claussen for use in connection with the Health Insurance Association's opposition to President Clinton's proposed health care initiatives. Years later, CuresNow retained Goddard Claussen to create an ad campaign in opposition to then-pending legislation to ban therapeutic cloning research. The television commercials created by Goddard Claussen for CuresNow also featured "Harry and Louise" and were done in the same style and format as the earlier Health Insurance Association commercials.

The Health Insurance Association objected, apparently concerned that some members of the public would think that the Association supported therapeutic cloning. The Association voiced its objections in a copyright and trade dress infringement suit, and quickly sought a preliminary injunction against CuresNow's continued use of "Harry and Louise" commercials. Federal District Judge Reggie Walton denied the requested injunction.

Judge Walton ruled that the Health Insurance Association failed to show it was likely to succeed with its claim that it owns the copyrights to the "Harry and Louise" commercials created for it. This was so, the judge explained, because the Association did not author the commercials, did not obtain a written assignment of their copyrights, and did not demonstrate that the commercials were created for it as works made for hire.

The judge also ruled that the Association failed to show it was likely to prevail with its trade dress claim. It failed to demonstrate that it owns an inherently distinctive trade dress, or one that has acquired secondary meaning, in the "Harry and Louise" advertisements such that the public would necessarily identify the Association as the source of those advertisements.

The Health Insurance Association was

represented by Daniel E. Johnson of McKenna & Cuneo in Washington D.C. Goddard Claussen and CuresNow were represented by William Webber of Morgan Lewis & Bockius in Washington D.C. and Richard Ben-Veniste of Mayer Brown Rowe & Maw in Washington D.C.

Health Insurance Association of America v. Goddard Claussen Porter Novelli, 211 F.Supp.2d 23, 2002 U.S.Dist.LEXIS 8866 (D.D.C. 2002) [ELR 24:7:21]

National Geographic wins dismissal of some, but only some, claims made by freelance photographers and journalists, in cases complaining that their works were included in CD-ROM without their consent

National Geographic subscribers used to keep back issues for years, even decades. Then, several years ago, those bulky, heavy and often dusty and musty collections became unnecessary, because the magazine published all of its back issues on CD-ROM – a format that is full-text searchable, as well as compact, light and clean.

While the CD-ROM has been wonderful for the magazine's fans, it has become a legal nightmare for its publisher. Many of the thousands of articles and photographs published in the magazine over a period stretching back decades were written and shot by freelance contributors, and the copyright status of those contributions is "murky" at best, as one federal judge recently noted. A federal judge had reason to comment on the current status of those contributions, because many of their creators have filed lawsuits against National Geographic – lawsuits alleging that they own the copyrights to their articles and photos, and that National Geographic infringed those copyrights by publishing CD-ROMs containing their works, without their consent.

At least three of those cases are now pending before Judge Lewis Kaplan in the Southern District of New York who has written two pre-trial decisions already. (A fourth case was filed in Georgia. (ELR 23:3:9))

In the first of those decisions to be published, Judge Kaplan ruled that a trial will be necessary to determine whether National Geographic owns the copyrights to certain articles and photos created by freelancer Fred Ward, on the grounds they were works made for hire, or whether there was an agreement, based on industry custom, that Ward himself would retain ownership of their copyrights (ELR 24:6:12).

In the second of those decisions, Judge Kaplan held that a trial also will be necessary to determine who owns the copyrights to articles and photos created by several other freelancers.

In his second decision, Judge Kaplan rejected National Geographic's argument that summary judgment should be granted to it with respect to infringement claims made by several freelancers on the grounds that their copyright registrations were defective. Instead, for several different reasons – each pertaining to particular registrations – the judge found that the freelancers had made adequate efforts to register their works to permit their infringement claims to proceed.

Judge Kaplan also rejected National Geographic's work made for hire arguments as to several articles and photos, finding (as he had in his first decision) that the freelancers had raised disputed issues about whether the magazine had agreed that they would retain ownership of the copyrights to those works. However, the evidence showed that photographer David Hiser had granted National Geographic "all rights" to certain of his photos; and that evidence was sufficient to support the magazine's assertion that those photos were created as works made for hire, under the pre-1978 copyright law in effect when those photos were taken. As a result, Judge Kaplan did grant National Geographic's motion for summary judgment with respect to those photos by Hiser.

Finally, Judge Kaplan rejected National

Geographic's argument that even if the articles and photos were not works made for hire, it had been licensed to publish those works in CD-ROM form. As he had in his first decision, the judge ruled that under the pre-1978 law in effect when those works were created, National Geographic could not sub-license its publication rights without the freelancers' consent. And since National Geographic did not publish CD-ROMs itself, but actually sub-licensed another company to do so, whatever license the magazine received from the freelancers would not extend to those CD-ROMs.

National Geographic did not come away completely empty-handed. Certain articles by journalist Arthur Allen were published before 1964, and thus Allen should have renewed their copyrights before 1992, but didn't. Judge Kaplan agreed with National Geographic that those articles went into the public domain when their first terms expired. And thus the judge did grant National Geographic's motion for summary judgment as to those.

Kodak was named as a defendant in two of the three cases before Judge Kaplan, and it has escaped liability. Kodak "sponsored" – but did not co-publish – the National Geographic CD-ROM; and that is why it was sued. There was no evidence, however, that Kodak distributed National Geographic CD-ROMs itself or directly infringed in any other way. Moreover, Judge Kaplan ruled that Kodak's sponsorship of the CD-ROM – and its actions associated with that sponsorship, including its request to be indemnified by National Geographic – did not amount to either vicarious or contributory infringement. As a result, the judge granted Kodak's motion for summary judgment.

The freelancers were represented by Stephen A. Weingrad of Weingrad & Weingrad in New York City. National Geographic and Kodak were represented by

Robert G. Sugarman of Weil Gotshal & Manges in New York City, and by Terrence B. Adamson of the National Geographic Society in Washington D.C.

Faulkner v. National Geographic Society, 211 F.Supp.2d 450, 2002 U.S.Dist.LEXIS 12938 (S.D.N.Y. 2002) [ELR 24:7:21]

Disputed issues require trial of Greg Allman's claim that Capricorn Records infringed his copyright to song "Wasted Words" by issuing recordings that had different phonorecord number than one identified in compulsory license issued to Capricorn co-owner PolyGram Records

Capricorn Records may have infringed Greg Allman's copyright in the song "Wasted Words" when it issued a recording of the song. Allman claims that it did, in a copyright infringement suit Allman has filed against Capricorn in federal court in Los Angeles. But District Judge Nora Manella thought not, and granted Capricorn's motion for summary judgment.

Capricorn is not a pirate, nor even a plagiarist. It is a limited liability company, co-owned by Mercury Records which is a division of PolyGram Records. Capricorn's lineage is significant, because before it issued a recording of "Wasted Words," Allman and his publishing companies granted PolyGram a written "compulsory license" to sell recordings of that and other songs.

However, the written license specifically provided that it covered "one particular recording . . . on the phonorecord number identified" in the license. The "phonorecord number" on the recording issued by Capricorn did not match the phonorecord number identified in the license. And that enabled Allman to argue that Capricorn's recording wasn't licensed at all.

Capricorn of course argued that "the phonorecord number is not a material part of the license." But Allman argued that it is, "because it prohibits unauthorized issuances of recordings in a manner that would make it difficult or impossible to track royalties." What's more, Allman explained that if new licenses were to be issued to Capricorn, royalties would be payable at the full statutory rate rather than at the 80% of statutory rate specified in the license issued to PolyGram.

In a memorandum opinion marked "not selected for publication in the Federal Reporter," the Court of Appeals concluded that these disagreements between Capricorn and Allman created "genuine issues of fact" concerning the scope of the license issued to PolyGram and whether Capricorn exceeded that scope and thus infringed the song's copyright.

In a concurring opinion, Judge Clifford Wallace added that he thinks the District Court also must decide whether Capricorn or PolyGram itself manufactured and distributed the offending recording, and if Capricorn did, whether Capricorn and PolyGram are separate or the same entities, and if separate entities, whether PolyGram's license authorized Capricorn's activities.

Allman v. Capricorn Records, 42 Fed.Appx. 82, 2002 U.S.App.LEXIS 14615 (9th Cir. 2002) [ELR 24:7:22]

Company that produced "9 1/2 Weeks" may sue producers of prequel "The First 9 1/2 Weeks" for trademark infringement, without suing British company from which prequel producer acquired rights

A trademark infringement case filed by the company that produced the movie "9 1/2 Weeks" looks as though it may involve interesting and instructive issues, including the question of whether a grant of "sequel" rights includes the right to make a "prequel." That question appears to be at the heart of the lawsuit filed by Jonesfilm, the company that produced "9 1/2 Weeks," against High Concept Productions, the company that produced a prequel entitled "The First 9 1/2 Weeks."

Before the case got to its merits, however, it got hung up on a procedural question. That question was whether Jonesfilm had to sue NTTS, the company to which Jonesfilm had assigned sequel rights, in order to sue High Concept, or whether Jonesfilm could sue High Concept without suing NTTS. Jonesfilm did not sue NTTS, possibly because it is a British company, over which Jonesfilm could not get personal jurisdiction in federal court in New York City, where it sued High Concept.

NTTA did produce a sequel, “Another 9 1/2 Weeks,” and then assigned its remaining rights to High Concept which relied on the rights it acquired from NTTS to produce “The First 9 1/2 Weeks.” At the outset of the case, High Concept argued that NTTS was an indispensable party, and moved for dismissal of the case on that ground. District Judge Loretta Preska agreed with High Concept and dismissed the case.

On appeal, however, Jonesfilm’s claims have been reinstated. Writing for the Court of Appeals, Judge Robert Katzmann held that NTTS was not an indispensable party. It was not, the judge reasoned, because before any further movies were produced based on rights NTTS had acquired from Jonesfilm, the Jonesfilm-NTTS contract required NTTS to notify Jonesfilm and engage in good faith negotiations concerning Jonesfilm's compensation and credit. Even High Concept acknowledged that neither it nor NTTS had notified let alone negotiated with Jonesfilm, before "The First 9 1/2 Weeks" was produced.

As a result, Judge Katzmann has reversed the dismissal of Jonesfilm's trademark infringement case against High Concept, and has remanded the case to the District Court for further proceedings.

Jonesfilm was represented by Barry L. Goldin in Allentown. High Concept was represented by Marcia B. Paul of Kay & Boose in New York City.

Jonesfilm v. Lion Gate International, 299 F.3d 134, 2002 U.S.App.LEXIS 16444 (2nd Cir. 2002) [ELR 24:7:23]

Copyright infringement case filed against songwriter Robert McGee by composer/performer Ronald Calhoun was properly dismissed, even though McGee's song "Emmanuel" is "practically identical" to Calhoun's song "Before His Eyes," because McGee proved he independently created "Emmanuel"

Songwriter Robert McGee independently created the very popular Christian song "Emmanuel," even though it is "virtually identical" to an older religious song titled "Before His Eyes" which was written, recorded and performed by Ronald Calhoun. Federal

District Judge John Nangle so found, in response to a motion for summary judgment made by McGee, his publisher and several others who Calhoun had sued for copyright infringement. As a result of that finding, the Court of Appeals has affirmed Judge Nangle's dismissal of Calhoun's case.

In a per curiam decision, the Court of Appeals noted that "Before His Eyes" and "Emmanuel" are "practically identical" to one another. But that alone did not entitle Calhoun to a trial. "Given the limited number of musical notes . . . , the combination of those notes and their phrasing, it is not surprising that a simple composition of a short length might well be susceptible to original creation by more than one composer," the appellate court explained. "[I]n the realm of copyright," it added, "identical expression does not necessarily constitute infringement."

McGee stated in an affidavit that he

independently created "Emmanuel" during a church service, and did not use any pre-existing material as a basis for his song. Moreover, McGee provided affidavits of several witnesses who corroborated his independent creation of "Emmanuel."

Those affidavits required Calhoun to provide evidence to the contrary, but he didn't. He did offer arguments about ways in which McGee may have heard "Before His Eyes" before composing "Emmanuel." But those arguments were not corroborated by evidence, the appellate court concluded.

Calhoun represented himself. McGee and other defendants were represented by Ralph Kran Riddle of Karsman Brooks & Callaway in Savannah, by John C. Herman of Duane Morris in Atlanta, by and Arthur Martin Kent in Savannah.

Calhoun v. Lillenas Publishing, 298 F.3d 1228, 2002 U.S.App.LEXIS 15468 (11th Cir. 2002) [ELR 24:7:23]

"Perfect 10" wins preliminary injunction barring "Adult Check" from providing links to websites containing photos that infringe Perfect 10's copyrights or violate publicity rights of certain celebrities and models

"Perfect 10" is the brainchild of Dr. Norman Zadeh. Dr. Zadeh has a Ph.D. in Operations Research as well as other impressive credentials in the fields of computer research and applied mathematics. Perfect 10's business, however, shows he has broader interests too. It publishes a magazine and website featuring "'classy' photos of nude women."

The magazine has a circulation of some 90,000;

and the website gets 100,000 visitors a month. But Perfect 10 has not yet brought Dr. Zadeh the wealth that most business people hope for. Indeed, he acknowledges the company has been losing $4 to $5 million a year. What Perfect 10 has earned Dr. Zadeh is a place in entertainment law history, because a lawsuit the company filed in federal court in Los Angeles has produced a precedent-setting opinion.

Perfect 10, like Playboy, has been plagued by the theft of its photos. In fact, Perfect 10 has found more than 10,000 copies of its images posted on some 900 websites, all without its permission or the permission of the models and celebrities who posed for those images. There is no serious dispute that these unauthorized postings infringe Perfect 10’s copyrights and violate their models’ rights of publicity. The serious questions concerned what Perfect 10 could do about it, as a practical matter.

Rather than sue 900 website operators scattered all over the country and perhaps the world, Perfect 10 sued Cybernet Ventures, Inc.; and that is how it came to set a precedent. Cybernet Ventures runs "Adult Check" – an age verification service that (according to its own website) "keeps adult material away from minors while at the same time allowing adults to view adult content on the Internet." Cybernet does this by using credit cards as a "proxy" for identifying those who are 18 and older. That is, Cybernet seeks to authenticate the ages of those who wish to view adult material on the Internet by requiring them to provide credit card numbers before they can access participating websites.

Cybernet charges viewers subscription fees for this verification service, and for access to more than 300,000 participating websites. Cybernet's own website has an index and search function, with links to participating sites. Subscription fees go directly to Cybernet; and Cybernet pays a commission to each participating website, twice monthly.

Despite these intimate relations between Cybernet and its participating websites, there is an important dividing line between them: none of the material available for viewing by Cybernet's subscribers passes through Cybernet's servers; all of it is transmitted directly to subscribers by the participating websites themselves. This turned out to be significant in the Perfect 10 lawsuit, because it meant that Cybernet does not engage in any direct infringing activity itself.

Nevertheless, Perfect 10 could and did sue Cybernet for contributory and vicarious copyright infringement; and that enabled Cybernet to assert that it was protected by the "safe harbor" provisions of the Digital Millennium Copyright Act. These conflicting positions were brought to a head when Perfect 10 filed a motion for a preliminary injunction.

Federal District Judge Lourdes Baird has granted Perfect 10's motion. Her decision is lengthy (50 printed pages) and contains countless nuggets on procedural and substantive issues. In a nutshell, though, Judge Baird ruled that Perfect 10 established a "strong likelihood of success" on its contributory and vicarious copyright infringement claims, and on its unfair competition claims based on the rights of publicity of models who had assigned their publicity rights to Perfect 10 and of unrelated celebrities who had unsuccessfully complained to Cybernet about the unauthorized use of their images by affiliated websites.

In connection with its contributory infringement claim, Judge Baird found there was a strong likelihood Perfect 10 would be able to show that Cybernet had knowledge its participating websites were infringing

Perfect 10's copyrights. And the judge found that Cybernet materially contributed to those infringements by paying commissions to website operators, by providing them with technical and content advice, and in other ways.

In connection with Perfect 10's vicarious infringement claim, the judge found that Cybernet has a direct financial interest in the success of the infringing websites, and has the right and ability to control their activities.

Judge Baird rejected Cybernet's "safe harbor" defense, because she found it unlikely that Cybernet would be able to show it had implemented a policy to terminate repeat infringers, and because it accepted counter-notifications from accused websites, by reactivating them, even though their counter-notifications did not meet the DMCA's requirements.

Since Cybernet did not transmit any of the offending material from its own servers, Perfect 10's unfair competition claims also depended on Judge Baird finding that Cybernet could be contributorily or vicariously liable for right of publicity violations committed by its participating websites. Though no precedent existed in California law on this issue, the judge noted that California has adopted the "joint liability" principles found in the Restatement (Second) of Torts which does provide for such liability under specified conditions. The judge found that it was likely Perfect 10 would be able to prove those conditions exist in this case, because Cybernet knowingly participated in conduct that amounted to a violation of the rights of publicity of those celebrities and models who were depicted in the images transmitted by its participating websites.

Based on these findings, Judge Baird issued a preliminary injunction that bars Cybernet from (among other things) including in its index or search engine, or giving its subscribers access to, any website that posts images that infringe Perfect 10's copyrights, or violate the publicity rights of those models who assigned their rights to Perfect 10 or of unrelated celebrities who complained to Cybernet about the unauthorized use of their images by its participating websites.

Perfect 10 was represented by Jeffrey N. Mausner of Berman Mausner & Resser, and Ronald L. Johnston of Arnold & Porter, in Los Angeles. Cybernet Ventures and a co-defendant were represented by Christopher G. Caldwell of Caldwell Leslie Newcombe & Pettit, and Alejandro N. Mayorkas of O'Melveny & Myers, in Los Angeles.

Perfect 10, Inc. v. Cybernet Ventures, Inc., 213 F.Supp.2d 1146, 2002 U.S.Dist.LEXIS 7333 (C.D.Cal. 2002) [ELR 24:7:24]

Federal District Court dismisses one counterclaim, but not others, filed by Disney and Miramax against Video Pipeline, in case in which court earlier enjoined Video Pipeline from creating or streaming unauthorized homevideo trailers

Video Pipeline creates and distributes movie trailers to video retail stores. For a long time, it did so with Disney's consent, indeed with materials supplied by Disney pursuant to contract. Those days, however, predated the Internet.

When Video Pipeline's video store customers began setting up websites, the company began preparing short digital trailers that its customers streamed over those websites. Video Pipeline did this without Disney's consent or the consent of Miramax, and they objected.

In response to those objections, Video Pipeline filed a declaratory relief lawsuit, hoping that a federal judge would rule that it had a right to prepare digital trailers, even without consent. Instead, Judge Jerome Simandle granted Disney and Miramax's motion for a preliminary injunction barring Video Pipeline from continuing its unauthorized activities. (ELR 24:3:11) That injunction was based on copyright infringement counterclaims asserted by Disney and Miramax against Video Pipeline.

Though copyright infringement seems an adequate foundation for Disney and Miramax's counterclaims, the two companies alleged additional types of claims as well. In an effort to trim the case against it down in size, Video Pipeline sought dismissal of those additional claims. And in that regard, it has achieved some – but very limited – success.

Judge Simandle has ruled that Disney and

Miramax's state law unjust enrichment claim is preempted by the Copyright Act; and he therefore granted Video Pipeline's motion that it be dismissed.

On the other hand, the judge refused to dismiss Disney and Miramax's other counterclaims. He held that the two companies had adequately alleged claims under the Lanham Act and state unfair competition law, as well as claims for breach of contract, replevin and conversion. Judge Simandle also held that none of those claims is preempted by the Copyright Act, and therefore all "will . . . proceed."

Video Pipeline was represented by Gary D. Fry of Pelino & Lentz in Philadelphia. Buena Vista and Miramax were represented by Gary A. Rosen of Akin Gump Strauss Hauer & Feld in Philadelphia.

Video Pipeline, Inc. v. Buena Vista Home Entertainment, 210 F.Supp.2d 552, 2002

U.S.Dist.LEXIS 13641 (D.N.J. 2002) [ELR 24:7:25]

Minnesota courts refuse to disqualify NFL Commissioner Paul Tagliabue as arbitrator of contract disputes between Vikings and former assistant coaches

Hubbard Alexander and several others are locked in contract disputes with the Minnesota Vikings, for whom they used to be assistant coaches. The heart of their disputes concerns whether or not Alexander and the others are entitled to incentive compensation, based on the Vikings' performance. Before the merits of their claims were addressed, however, a satellite dispute took mid-field – a dispute over who would decide the cases.

The same contracts that promised the coaches incentive pay also provided that disputes about that, or any other issue, would be resolved by arbitration before

NFL Commissioner Paul Tagliabue. Alexander and his former colleagues were satisfied to have their cases decided by arbitration. They just didn't want Tagliabue to be the arbitrator.

The coaches feel that Tagliabue is biased against them, because his job requires him to act in the best interests of NFL teams and their owners, and because before he became Commissioner he represented the NFL and its members as chief outside counsel. As a result, Alexander and the other coaches filed a lawsuit in Minnesota state court, seeking a court order that would have replaced Tagliabue with a neutral arbitrator.

There was some precedent for such an order. Years ago, a New York state court did appoint a neutral arbitrator to replace Tagliabue to decide salary disputes between the New York Giants and Jets and two of their former players (ELR 13:6:14).

But a Minnesota state court judge dismissed the coaches' lawsuit, and that ruling has been affirmed on appeal.

In an opinion by Judge Bruce Willis, the Minnesota Court of Appeals has held that the Federal Arbitration Act does not provide for the removal of an arbitrator before an award has been issued, let alone before a hearing has been held.

The coaches argued that their contracts were adhesion contracts, and should not be enforced, exactly as written, for that reason. Judge Willis acknowledged that an arbitration agreement that is a contract of adhesion is invalid. But the judge noted that the coaches had not asked that the arbitration clauses be invalidated entirely; they merely sought the appointment of a different arbitrator. Judge Willis declined to do that, saying that there is no legal authority supporting the argument that adhesion contracts may be reformed to replace Tagliabue.

What about the earlier Giants and Jets case, where just such a thing had been done? Judge Willis rejected that decision saying that as a New York decision, it is "not precedential legal authority here [in Minnesota], and we do not find it to be persuasive."

Alexander and the other coaches were represented by Edward M. Glennon of Lindquist & Vennum in Minneapolis. The Minnesota Vikings were represented by Michael F. Kelly, Jr. And the NFL was represented by Daniel J. Connolly of Faegre & Benson in Minneapolis and Michael X. Imbroscio of Covington & Burling in Washington D.C.

Alexander v. Minnesota Vikings Football Club, 649 N.W.2d 464, 2002 Minn.App.LEXIS 1045 (Minn.App. 2002) [ELR 24:7:26]

Rutgers Magazine must accept ad from alumni group that opposes Rutgers' membership in Big East Conference, because magazine previously published article about controversy and ad for tickets to Big East basketball championship

Judges don't often get involved in magazines' decisions about what ads to run. But state court judges in New Jersey had to and did, as a result of unique facts surrounding a decision by Rutgers Magazine not to run an ad by a Rutgers alumni group.

Rutgers Magazine is published by Rutgers University, a public, state university. This unique fact makes the magazine – or at least its classified ad section – a public forum that must be operated in a manner that is consistent with the First Amendment.

The alumni group that sought to run a classified ad is a group that opposes Rutgers' participation in

NCAA Division One athletics in general and its membership in the Big East Conference in particular.

The magazine rejected the group's ad, because the magazine has a policy against running issue-oriented advertisements. That policy is perfectly constitutional, the Appellate Division of the New Jersey Superior Court acknowledged. But before the group submitted its ad, the magazine had published an article about the Big East Conference controversy, and then it ran an ad for tickets to a Big East Conference basketball championship.

Writing for the Appellate Division, Judge Philip Carchman ruled that in the wake of the Big East Conference article, the basketball tickets ad was as much an issue-oriented ad as the alumni group's ad. And thus, the magazine had not applied its advertising policy in an evenhanded manner. Instead, Judge Carchman ruled, by accepting the tickets ad while rejecting the alumni group's ad, the magazine had engaged in unconstitutional viewpoint discrimination.

As a result, the Appellate Division affirmed a lower court injunction that requires the magazine to publish the alumni group's ad.

The alumni group was represented by Grayson Barber and by J.C. Salyer of the ACLU of New Jersey Foundation. Rutgers was represented by Peter L. Skolnik of Lowenstein Sandler.

Rutgers 1000 Alumni Council v. Rutgers, 803 A.2d 679, 2002 N.J.Super.LEXIS 381 (N.J.Super.A.D. 2002) [ELR 24:7:26]

Appeals court affirms dismissal of Title VII employment discrimination suit filed against Delaware State University by former women's basketball coach

Delaware State University has prevailed, again, in a discrimination lawsuit filed against it by its former women's basketball coach, Mary Lamb-Bowman. A federal Court of Appeals has affirmed the dismissal of Lamb-Bowman's Title VII employment discrimination claims.

In a short opinion marked "Not Precedential," Judge Jane Roth agreed with the District Court (ELR 23:8:23) that Lamb-Bowman's allegations that Delaware State discriminated against those involved in its women's athletic program may have stated valid claims under Title IX of the Education Amendments, but not under Title VII of the Civil Rights Act.

The same was true, Judge Roth agreed, with respect to Lamb-Bowman's complaint that she had been retaliated against, because she complained about the university's discrimination against its women's athletic department. That too was a Title IX, rather than Title VII, complaint.

When Lamb-Bowman first filed her lawsuit, it included Title IX allegations. But early in the case, those were dismissed on the grounds they were barred by the statute of limitations. That issue was not appealed. But it explains why Lamb-Bowman persisted in characterizing her claims as "employment discrimination" claims under Title VII, rather than as the Title IX claims they may have been.

Lamb-Bowman v. Delaware State University, 39 Fed.Appx. 748, 2002 U.S.App.LEXIS 13140 (3rd Cir. 2002) [ELR 24:7:27]

Dismissal of RICO cases filed by trading card collectors against pro sports leagues, players associations and others is affirmed on appeal

Congress passed the RICO Act "to combat organized crime." But some folks' views as to what amounts to "organized crime" go considerably beyond the Mafia. In a series of related and surprising cases, trading card purchasers alleged that professional sports leagues, player associations, the Walt Disney Company, playing card sellers and others all violated RICO. They did so, said the trading card purchasers, by selling trading card packages, some of which contain rare and therefore valuable cards.

According to the collectors, the sale of card packages which may contain rare and valuable cards is "gambling," which is a RICO violation, because the essential elements of gambling – "price, chance, and prize" – all are involved.

However, to succeed with their RICO claim, the collectors had to show that they were injured in their "business or property" by the conduct that constituted the violations. This they could not do. Federal District Courts dismissed their cases (ELR 22:8:21). And those rulings have been affirmed on appeal.

Writing for the Court of Appeals, Judge Edward Leavy held that the collectors' property was not injured when they bought card packs that didn't contain rare cards. "At the time the [collectors] purchased the package of cards," he explained, "they received value – eight or ten cards, one of which might be an insert [i.e., rare] card – for what they paid as a purchase price. Their disappointment upon not finding an insert card in the package is not an injury to property."

As a result, the collectors did not have standing to sue under RICO, Judge Leavy concluded.

The disappointed card collectors were represented by Eric Isaacson of Milberg Weiss Bershad Hynes & Lerach in San Diego, and Henry Rossbacher of Rossbacher & Associates in Los Angeles. The defendants were represented by Shepard Goldfein of Skadden Arps Slate Meagher & Flom in New York City, and many other law firms.

Chaset v. Fleer/Skybox International, 300 F.3d 1083, 2002 U.S.App.LEXIS 16689 (9th Cir. 2002) [ELR 24:7:27]

Martha Graham Center owns "Martha Graham" name, rather than dancer's heir Ronald Protas, appellate court affirms

Martha Graham was "one of the most renowned dancers and choreographers of her era," a federal appellate court has noted. When she died in 1991, she left behind a wonderful artistic legacy – and a terrible legal mess.

The mess was a fight between the Martha Graham Center, which is the successor to the dance school Graham founded in 1930, and Ronald Protas, who is Graham's heir, the executor of her will, and the Center's former Artistic Director. The reason that Protas is the "former" Artistic Director is that his relations with the Center's trustees deteriorated so badly, they terminated him.

No doubt their conflicts involved many matters.

But by the time it got to court, it focused on just one: a dispute over who owns the trademark rights to the "Martha Graham" name.

Protas claimed that he inherited those trademark rights from Graham. He even registered his claim with the U.S. Patent and Trademark Office, and then licensed the Center to use the name. What's more, in that license, the Center promised not to dispute Protas' ownership of the mark. But when Protas terminated the license, the Center continued to use Martha Graham's name anyway, thereby triggering an infringement suit by Protas.

Despite documents and legal doctrines that supported him, Protas' motion for a preliminary injunction was denied by federal District Judge Miriam Cedarbaum (ELR 23:8:17). And her ruling has been affirmed on appeal.

In a Summary Order marked "not selected for publication in the Federal Reporter," the Court of Appeals has held that Judge Cedarbaum correctly ruled that Martha Graham had assigned her trademark rights to the Center – not merely licensed them – and thus Protas had not inherited them.

The appellate court also held that the doctrine of "licensee estoppel" would not prevent the Center from contesting Protas' ownership of the mark, for several reasons, including his use of misleading information to obtain his federal registration of the mark and his breach of his fiduciary duty to the Center. The court also noted that the Center had used Martha Graham's name for almost 50 years.

Finally, the appellate court ruled that Protas could not take advantage of a clause in his license to the Center that conveyed to him any rights the Center might acquire in the mark, after he terminated the license.

Protas was represented by Judd Burstein in New York City. The Martha Graham Center was represented by Katherine B. Forrest of Cravath Swaine & Moore in New York City.

Martha Graham School v. Martha Graham Center, 43 Fed.Appx. 408, 2002 U.S.App.LEXIS 13801 (2nd Cir. 2002) [ELR 24:7:28]

Previously Reported:

Supreme Court denies cert. The United States Supreme Court has begun its new term, but has shown little interest in entertainment industry cases, so far. The Court has denied certiorari in the following, previously reported cases: Grid Radio v. Federal Communications Commission, 123 S.Ct. 82, 2002

U.S.LEXIS 5518 (2002) (ELR 24:1:19); Fraser v. Major League Soccer, 123 S.Ct. 118, 2002 U.S.LEXIS 6523 (2002) (ELR 24:2:13); and Green v. CBS Broadcasting, 123 S.Ct. 132, 2002 U.S.LEXIS 6556 (2002) (ELR 24:3:16). [ELR 24:7:28]

DEPARTMENTS

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