BUSINESS AFFAIRS

Pushing the Internet Video-on-Demand Envelope

by Schuyler M. Moore

Introduction

ClickStar Inc. is a new company formed by Intel and a company owned by Morgan Freeman to push the frontiers of video-on-demand (VOD) in two ways:

- To adopt a download-to-own model (analogous to sell-through DVDs), in contrast to the rental model currently used for most films; and
- To move the VOD window up, ultimately to be day-and-date with the theatrical release.

The primary purpose for this paradigm shift in VOD delivery is to protect content and stop piracy. The film industry must offer a legal alternative to satisfy the demand for the download of films, or it risks being "Napsterized" by illegal downloads just as the music industry was. With authorized downloads, it is possible to limit the copying and sharing of films beyond the home and mobile devices of the recipient. In contrast, pirated films can be freely shared over peer-to-peer networks; the latest edition of "Star Wars" was being pirated on the Internet before the popcorn was gone on the first screenings.

I have recently talked to kids from around the world that brag about the ability to download perfect quality films and watch them on a large screen TV within days of the U.S. theatrical release – if not before. No wonder that theatrical revenue is down and DVD revenue has flatlined. The dreaded nightmare of the film industry being "Napsterized" is upon us. Another important reason for this paradigm shift is to use the advertising expenditure that accompanies the theatrical release to best advantage, instead of having to gear up the marketing machine for each window.

Download-to-Own

The delivery paradigm adopted by ClickStar is intended to confront this market reality head-on. Consumers want to own, not just rent, films, as evidenced by the explosion in the DVD market. They want to build up a library of their own films, so ClickStar is adopting a download-to-own model, using pricing analogous to sell-through DVD. The company may ultimately adopt a subscription model, whereby a certain number of DVDs can be purchased each month for a specified fee. The company will also make films available on a rental model, as is currently offered by Movie Link and Cinema Now, for those customers that prefer to rent a film for a lower fee.

Window

But the most important aspect of ClickStar is its determination to move up the VOD window. Currently, the VOD window does not start until the pay TV window starts. However, this current window structure has unintentionally encouraged pirating to satisfy public demand prior to commencement of the VOD window.

ClickStar's strategy is for the VOD window to move up to commence at least concurrent with the DVD window, and ultimately to commence at or shortly after the theatrical release. Although this window shattering approach causes the most angst to distributors, the angst is more psychological and emotional than economic for several reasons: First, the size of the current VOD market is not substantial enough to have a significant impact on any other media. Second, VOD usage is typically an incremental increase and does not cannibalize other media. For example, VOD is not a replacement for the primacy of the theatrical release; people like to get out of the house, and theaters offer a group emotional experience that transcends the home experience. Third, it is likely that cable operators will move up the VOD window for cable into the current DVD window.

ClickStar is not the only company that believes that the windows must be collapsed. Just recently, 2929 Entertainment, the company owned by Mark Cuban, who also owns the Landmark theater chain, announced its intent to release films day and date in theaters, on DVD,

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and on cable; and Warner Brothers recently released a picture in China on DVD day date with the U.S. theatrical release. To quote Dylan, "You don't need a weatherman to know which way the wind blows."

Piracy

The most commonly expressed fear about moving up the VOD window is the risk of piracy, but this fear is misplaced. VOD over the Internet is targeted towards consumers who are more technologically savvy – and are thus more likely to pirate a film if no legal downloading alternative is available. Although all copy protection technologies can be circumvented, *VOD is more secure than DVDs*, because DVDs use a single, uniform method of protection, which was broken long ago by a program that is now widely available for free, whereas VOD protection can be updated at will to limit the ability of the films to be copied or shared. Thus, the fear that VOD will result in more piracy is a bugaboo.

Technology

ClickStar will offer films for downloading over the Internet to a personal computer that will be linked to one or more televisions in the home. The consumer will be able to choose the quality of the download, with full high-definition capability available at slower download speeds. However, there will be no delay in the start time for the film, because the film can start while the rest of the film is being downloaded through a buffer, unnoticed by the consumer. The consumer will be able to transfer the film to other authorized devices, including mobile devices owned by the consumer.

License Terms

The current license terms for VOD typically provide for a 60-40 split, with 60% paid the licensor and 40% retained by the VOD distributor. It is anticipated that this arrangement will change somewhat as the VOD window moves up and as the model shifts to download-to-own. For example, the licensor's share of the revenues might be expected to go up, and there may even be a minimum guarantee, as is common with other media.

Territoriality

Because of the worldwide reach of the Internet, VOD has the capability to reach worldwide audiences. However, technology exists to limit access to consumers in specified countries, so Internet distribution rights can be sold and licensed with geographic limitations.

Participations

One issue to resolve will be the calculation of participations owed to talent. Most studios currently are including only 20% of VOD revenues in gross receipts for purposes of paying participations because they view VOD as competing with DVD dollars, which are likewise usually reported at only 20% of gross.

A further complication will be how to allocate revenues among pictures, particularly if consumers pay a monthly subscription price in lieu of a per-film price. This same issue currently applies to any package sale of film rights, and the best that typically is achieved is vague "fair and reasonable" allocation language in the contract.

Finally, ad revenue will not be included in gross receipts, just as it is not picked up now for broadcast revenues.

Guild Residuals

Another issue will be determining how to calculate guild residuals on VOD. Similar to the question of calculating contingent payments owed to talent, the question under the guild agreements is what will be the starting point for calculating gross receipts. Until the guild agreements are amended to expressly deal with this question, the same battles discussed above in connection with calculating participations will apply in calculating guild residuals.

Summary

In summary, (a) there is an incremental increase in revenue to be made off VOD with an early window, (b) films delivered via VOD are *more* secure than DVDs; and (c) providing an early window download-to-own model is likely to eliminate piracy for all but a hard-core few that are willing to commit crime just for the fun of it. VOD on a download-to-own model in an early window is a distribution model whose time has come.

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LEGAL AFFAIRS

Copyright Liability for the Actions of Others, after *Grokster*: Some Thoughts and an Algorithm

by Lionel S. Sobel

The Supreme Court's decision in the *Grokster* case (*ELR* 27:2:10) was a tremendous victory for the entertainment industry. But it wasn't as big as it could have been. Nor was it as big a blow to the technology industry, as some technologists feared it might be.

The Court's decision does enough so the movie and music industries ought to win a judgment against Grokster and StreamCast, now that the case has been remanded to the District Court for trial. The P2P networks said otherwise, publicly, after the Supreme Court ruled against them. Putting their best face on the ruling, the P2P networks claimed they did *not* in fact intentionally induce or encourage their users to infringe copyrights; and they claimed they'll prove that at trial.

The reason that Grokster and StreamCast were able to make these claims, despite the contrary facts recited by Justice David Souter in his opinion for a unanimous Court, is that those facts came out of a record created in connection with a summary judgment motion, which resulted in lower court opinions that made those facts irrelevant, even if they were true. So at trial, Grokster and StreamCast can try to prove that however damning Justice Souter's statement of the facts may have been, they were not the *actual* facts. Stranger things have been proved, but not very often.

Even if the entertainment industry defeats Grokster and StreamCast at trial, the judgment will be against those two P2P networks only. By now, there are many more P2P networks that haven't even been sued as yet. That's one reason – though just a procedural reason – the Court's *Grokster* opinion wasn't as big a victory for the entertainment industry as it could have been.

More substantively, the Court's opinion was not as big a victory as it might have been, because of the limited impact it is likely to have on the actual behavior of technology companies. The Court's holding is a narrow one. We now know that if a product is distributed by someone who *intentionally* induces or encourages others to use it to infringe copyrights, the distributor will be liable for its users' infringing acts.

The primary part of the Court's opinion teaches that intent-to-induce can be shown by:

- clear expressions of intent, such as those made
    - in advertising for the product, or
    - in instructions on how to use it.

The likely consequence of this part of the opinion is that product distributors will no longer advertise the infringing uses of their products or provide instructions on how to use them to commit infringements. That's something. Now, distributors will have to depend on potential users learning these things from others.

But if the Supreme Court's *Grokster* opinion had been handed down several years ago, would it have discouraged Apple from adopting its "Rip, Mix, Burn" ad campaign? Not necessarily, because ripping music recordings and burning them to blank CDs is not actionable infringement, under the Audio Home Recording Act, so long as copyright royalties have been paid on those blank CDs (*ELR* 14:7:13). Apple could have said, quite plausibly, that its ad encouraged only that sort of non-actionable ripping and burning.

The Supreme Court did do more than simply warn technology companies not to advertise their products' infringing uses or provide instruction on how to use them to infringe. Justice Souter also wrote that a distributor's intent-to-induce can be shown by evidence that the product distributor:

- intended to satisfy consumer demand for a tool to infringe copyrights (such as consumer demand for replacements for other recently-enjoined products), or
- planned to generate income in ways that depended on the kind of widespread use of the product that would result only from copyright-infringing uses but not from non-infringing uses.

The first of these – intent to satisfy consumer demand – doesn't seem to add much to the Court's admonition against advertising infringing uses. For example, StreamCast's intent to satisfy consumer demand for a tool to infringe copyrights was shown, Justice Souter said, by "advertising . . . aimed at Napster

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users."

The second of these – income-generating plans that depend on uses that are more widespread than would result from non-infringing uses – seems difficult to prove. The failure rate of new businesses of all kinds suggests that most business plans include income forecasts that depend on hoped-for uses that far exceed those actually achieved. If a technology company wrote a business plan that projected *non*-infringing uses that seemed wildly unrealistic, would that plan be any more suspect (legally) than a movie company's projected ticket sales for many of its movies, or a record company's projected album sales for many of its albums?

The Supreme Court did say one more thing that may prove to be valuable to the entertainment industry. Justice Souter wrote that intent-to-induce-infringement also could be shown by the failure of a product distributor to make any effort to impede the copyright-infringing uses of its product. This conforms exactly to the entertainment industry's argument that if a dual-use product (one that can be used for non-infringing and infringing purposes) *can* be designed to prevent or discourage its infringing uses, then it *ought* to be designed that way, as a matter of law.

Alas, in what looks suspiciously like a footnote that was added to get unanimous support for the rest of his opinion, Justice Souter said that "a failure to take affirmative steps to prevent infringement," by itself, would not be enough for a court to find contributory infringement, "if the device otherwise was capable of substantial noninfringing uses." Still, we now know that the failure to prevent infringing uses, when coupled with some "other evidence of intent," will justify a finding that the distributor of the device is liable for infringements committed by its users.

This footnote highlights yet another reason the *Grokster* opinion was not as big a victory for the entertainment industry as it could have been. It shows how important it is to know whether devices are "capable of substantial noninfringing uses." Indeed, Grokster and StreamCast won in the lower courts, because those courts were persuaded that Grokster and StreamCast could not be held liable for infringements committed by their users, simply because their P2P networks were "capable of substantial noninfringing uses," regardless of what their users actually did. The Supreme Court held that view was wrong. Sometimes, distributors of devices that are capable of substantial noninfringing uses can be liable for infringements committed by users. They can be, if there's actual evidence they intentionally induced or encouraged infringement. And they can, if there is evidence from which such an intent may be *inferred*.

Such an intent can be inferred, the Supreme Court held, from evidence that the device is not capable of substantial or commercially significant noninfringing uses. Justice Souter put it this way: "[W]here an article is 'good for nothing else' but infringement . . . , there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe. . . ."

This means that if a device is not capable of substantial noninfringing uses, courts may presume that those who distributed the device did so with an intent to infringe, especially if the distributors failed to take steps to prevent the device from being used to infringe.

This of course makes it important to know how to determine whether a device is "capable" of noninfringing uses and when the extent of those uses is "substantial." Justice Souter's opinion for the unanimous Court does not answer that question. And though the question was addressed in the concurring opinions of Justices Ruth Ginsburg and Stephen Breyer, they disagreed. Each concurring opinion was joined by two additional Justices. So we now have the views of six Justices about whether the Grokster and StreamCast networks are "capable of substantial noninfringing uses." They are evenly divided, three/three, and we know nothing about the views of the three remaining Justices.

The Supreme Court may have to confront this issue once more before the *Grokster* case is entirely finished. It will, for example, if at trial, the evidence that Grokster and StreamCast intended to induce infringements does not actually prove that they did intend to do so. In that event, the issue will be whether their intent to induce infringements may be *inferred* – which in turn will depend on whether their networks are "capable of substantial noninfringing uses."

The question of when courts may impose copyright liability on a company for the actions of others who use its products and services is important, not only to Grokster and StreamCast, but to many other companies as well. Here is a series of questions – in a format that computer programmers would call an "algorithm" – that can be asked to evaluate when such liability may be imposed, in today's post-*Grokster* era. (In the following questions, the company referred to by Justice Souter as "the distributor of a product" is referred to as the "Defendant," even though this analysis may be used before any actual litigation is filed and may in fact be undertaken in an effort to counsel clients on how to avoid liability.)

1. Does the Defendant make or provide a device (including software) or a service that is used by others to reproduce, distribute, publicly perform or display, or create derivative versions of, copyrighted works?
   - If the answer is "no," the Defendant will not be liable for the actions of those who use its device or software (because, of course, those uses simply do not infringe copyright).
   - If the answer is "yes," go to question 2.
2. Were the uses of the Defendant's device or service

uses that were permitted by the Audio Home Recording Act, by the fair use doctrine, or by any other affirmative defense recognized by copyright law?

  - If the answer is "yes," the Defendant will not be liable (again, because those uses are not actionable or are not infringements).
  - If the answer is "no," go to question 3.

3. Did the Defendant intentionally induce or encourage others to use its device or service to infringe copyrights, as shown by clear expressions of intent (e.g., advertising or instructions), or by evidence the Defendant intended to satisfy consumer demand for a tool to infringe copyrights (such as consumer demand for replacements for other recently-enjoined products), or by evidence the Defendant planned to generate income in ways that depended on the kind of widespread use of the device or service that would result only from copyright-infringing uses but not from non-infringing uses?
   - If the answer is "yes," the Defendant is liable. (This is the holding of *Grokster*.)
   - If the answer is "no," go to question 4.
4. Is the Defendant's device or service capable of substantial noninfringing uses?
   - If the answer is "no," the Defendant is liable for the infringements committed by users of its device or service, because under this circumstance, it may be presumed that the Defendant intended its device or service to be used to commit infringements, especially if the Defendant failed to take steps to prevent users from committing infringements. (This too is a holding of *Grokster*, though the opinion of the Court doesn't explain how to determine when a device or service is capable of substantial noninfringing uses, and the concurring opinions disagree about whether Grokster and StreamCast themselves were capable of doing so.)
   - If the answer is "yes," go to question 5.
5. Did the Defendant actually know that its device or service was being used to infringe particular copyrights?
   - If the answer is "no," the Defendant is not liable for the infringements committed by users of its device or service.
   - If the answer is "yes," go to question 6.
6. Did the Defendant have (but not exercise) the ability to prevent users of its device or service from committing infringements?
   - If the answer is "no," the Defendant is not liable for the infringements committed by users of its device or service.
   - If the answer is "yes," the Defendant is liable for infringements committed by users of its device or service. (This conclusion comes not from the *Grokster* opinion, but from earlier opinions of the Ninth and Seventh Circuit Courts of Appeals in the *Napster* and *Aimster* cases. (*ELR* 23:11:4, 25:5:9))

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RECENT CASES

Insurance companies must pay defense costs incurred by Taco Bell in idea-submission lawsuit based on its use of "Psycho Chihuahua" in TV commercial, appellate court affirms

After Taco Bell began airing commercials featuring "Psycho Chihuahua," the design agency Wrench claimed that the commercial misappropriated an idea that Wrench had earlier pitched to the Mexican fast food company. The case featured a lot of pre-trial legal wrangling about whether Michigan state "idea submission" law is preempted by copyright (it isn't), and whether Michigan law requires ideas to be "novel" to be protected (it doesn't) (*ELR* 21:7:7, 23:7:15, 23:7:15). And then Wrench won a $30 million jury verdict (*ELR* 25:1:18).

That judgment has been appealed. In the meantime, though, a companion dispute arose between Taco Bell and its two insurance companies over whether they were required to pay for Taco Bell's defense. Taco Bell spent some $5.8 million defending itself, so the question was not trivial. And when it was decided that the insurance companies did have to pay, yet another dispute arose between them over what portion of those defense costs each insurance company had to pay.

Taco Bell was insured by Continental Casualty Company and Zurich American Insurance Company. Both policies covered "advertising injury," so Taco Bell tendered Wrench's lawsuit to the insurance companies, expecting a trial defense. When the companies declined to defend, Taco Bell sued them for declaratory relief in federal District Court. Continental settled with Taco Bell, but Zurich continued to maintain that it did not owe Taco Bell a defense.

Eventually, the District Court ruled in Taco Bell's favor and ordered Zurich to pay. That judgment also required Zurich to pay Continental $1.8 million which was half the $3.6 million Continental had already paid in defense costs. Zurich appealed. And Continental did too, because it wanted Zurich to "pay a larger share of Taco Bell's defense costs."

The insurance companies had issued similar policies, though they covered different periods – Continental from January to October of 1997, Zurich from October 1997 to the end of 1998.

Zurich argued that because the first Chihuahua commercial aired before its coverage began, it was "off the hook." Said another way, Zurich argued that under the "prior publication" exclusion in its insurance policy, the commercials broadcast after its policy kicked in weren't covered because though they were clearly different from earlier ones, they still "used the same misappropriated design, namely the idea of the Chihuahua with attitude[.]"

"Zurich is wrong," said Court of Appeals Judge Richard Posner. He noted that the "duty of an insurance company to defend a suit against its insured is determined by the allegations of the complaint in that suit rather than by what is actually proved." Because Wrench's claims against Taco Bell amounted to an "advertising injury," and because Wrench claimed that the later commercials also misappropriated ideas related to the Chihuahua concept, Zurich was on the hook, whether Wrench's claims were meritorious or not.

Zurich also argued that it did not have a duty to defend Taco Bell, because the policy required Taco Bell to inform it "promptly" of the suit, and Taco Bell didn't let Zurich know of the lawsuit until four months after its filing. But, Judge Posner said, "[since] the delay here was modest, Zurich can invoke the notice clause only if there is some evidence that it suffered at least some prejudice from Taco Bell's delay." Zurich argued that had it known about the suit, it could have taken steps to "prevent Taco Bell from continuing to run the commercials," and therefore prejudice did occur. Judge Posner didn't agree however, because "[the] insurance policy didn't authorize [Zurich] to review Taco Bell's commercial and if it thought them tortious force Taco Bell to yank them." Even when Zurich received notice of the suit, the judge added, it did nothing to stop the commercials. "There is no reason to suppose that if Zurich had received notice earlier it would have taken such steps[.]"

Zurich was successful with part of its appeal, however. Under the "self-insured retention clause" of its policy, "[o]nly after Taco Bell paid the first $2 million of defense costs would Zurich's duty to pay kick in." This meant that Zurich was liable to Continental for $800,000 of the $3.6 million in defense costs Continental had already paid, not the $1.8 million the District Court had ordered Zurich to pay. Since Continental had no similar provision in the policy it issued Taco Bell, it was not "entitled to benefit from Zurich's provision."

In its appeal, Continental argued that Zurich should pay the "lion's share of the defense costs because most of the offending commercials were broadcast after October 6, 1997, when Continental's policy expired." Judge Posner did not agree. "Although Zurich's 'prior publication' defense to its duty to defend Taco Bell from

Wrench's suit has failed, probably most of the damages alleged by Wrench can be traced to what we are calling the basic misappropriation, which was published while Continental's policy was in force." Added the judge: "[w]hat is true though unremarked by the parties is that the ground on which the district court split the defense costs equally between the two insurers was highly questionable." Here, because the insurance policies were successive, it did not make sense to split the risk down the middle even though both policies had other insurance clauses. "To apply 'other insurance' clauses in such a case would make insurers liable in part for occurrences outside the period covered by their policies." But, added the judge, "[a]s if life weren't complicated enough, however, there is an argument for treating risks in separate periods as the same risk when a single tortious act continues in successive periods." Judge Posner declined to do this though, because "the parties have not suggested any better method of dividing the costs between the two insurance companies[.]"

Taco Bell was represented by Eugene A. Schoon of Sidley Austin Brown & Wood in Chicago. Continental was represented by Michael G. Bruton of Ross Dixon & Bell in Chicago. Zurich was represented by Melinda Sue Kollkross of Clausen Miller in Chicago. *(AMF)*

Taco Bell Corp. v. Continental Casualty Co., 388 F.3d 1069, 2004 U.S.App.LEXIS 23281 (7th Cir. 2004)

Third Eye Blind may sue its business manager for failing to obtain Errors and Omission insurance, after the group had to settle a publicity claim because its insurance company initially denied coverage, California Court of Appeal rules

When the group Third Eye Blind purchased insurance, its business manager and insurance broker failed to inform the group that the policy excluded coverage for damages arising out of the entertainment industry. Specifically, the policy excluded coverage for defamation, privacy and publicity claims and also for trademark and copyright claims.

After the group fired band member Kevin Cadogan, Cadogan sued alleging that performances under the name "Third Eye Blind" violated his publicity rights. The group's insurance company denied the claim, and it cost the group more than $3 million to settle the case.

The group then sued its insurance company, North American Specialty Insurance Company, for wrongfully denying coverage; and it sued its business manager, Provident Financial Management, alleging that Provident had negligently failed to notify the group that the general liability policy it had obtained excluded entertainment industry coverage and that errors and omissions insurance was required.

The trial court ruled that the insurance company had a duty to defend the group in the Cadogan lawsuit. And ultimately the group and the insurance company reached a settlement.

However, Provident believed that since the insurance company had a duty to defend the group, it could not be held liable. The trial court agreed with Provident on that issue. But the California Court of Appeal has reversed.

Writing on behalf of the appellate court, Justice William McGuiness ruled that whether Provident failed to give adequate advice is "an independent question" which does not depend on whether the insurance company was justified in denying coverage. The harm caused by denying the group's claim was "foreseeable harm that could have been avoided" if Provident competently advised the group, the justice said. Justice McGuiness also ruled that the attorneys' fees the group incurred in pursuing coverage is an item of damage caused by Provident's alleged negligence.

For these reasons the dismissal of Third Eye Blind's claim against its business manager was reversed.

Third Eye Blind was represented by Dennis M. Cusack of Farella Braun & Martel in San Francisco. Provident was represented by Ralph W. Tarr of Andrews & Kurth in Los Angeles. (*MAR*)

Third Eye Blind v. Near North Entertainment Insurance Services, 26 Cal.Rptr.3d 452, 2005 Cal.App.LEXIS 494 (Cal.App. 2005)

"The Tom Leykis Show" did not violate California Civil Rights Act by screening on-air callers by age, California appellate court affirms

Why don't people want to listen to their elders anymore? Marty Ingels, a 65-year-old listener of "The Tom Leykis Show" and former host of the radio show "The World As Seen By Marty Ingels," decided to call in to discuss the day's topic: relationships between young people. When Ingels finally got through, screeners for the show said that Ingels was too old and "didn't belong on the show." Eventually, Leykis took the call from Ingels, but Leykis refused to allow Ingels to speak on the issue because of his age.

Ingels filed an age discrimination suit against Leykis and his employer, Westwood One Broadcasting. Westwood One filed a special motion to strike the age discrimination claim, under the Anti-SLAPP (Strategic Lawsuit Against Public Participation) statute, and the trial court granted the motion.

California Court of Appeal Justice J. Gary Hastings confirmed that the Anti-SLAPP statute applied to the

case. Justice Hastings pointed out that the purpose of the Anti-SLAPP statute is to prevent the chilling of First Amendment rights by allowing a special motion to strike.

Justice Hastings concluded that the Unruh Civil Rights Statute is not applicable to a radio talk show host because to apply the statute to the show would infringe upon Leykis' First Amendment right to free speech, because the statute would be dictating the content of his radio show.

Ingels was represented by Robert G. Klein in Los Angeles. Westwood One Broadcasting Services, Inc., was represented by Bernard M. Resser of Berman Mausner & Resser in Los Angeles. (*HK*)

Ingels v. Westwood One Broadcasting Inc., 28 Cal.Rptr.3d 933, 2005 Cal.App.LEXIS 863 (Cal. Ct. App. 2005)

Federal District Court confirms arbitrator's decision requiring Ricky Williams to repay signing bonus and incentive payments received from Miami Dolphins after Williams quit football before his Dolphins contract expired

Football player Ricky Williams contracted to play with the Miami Dolphins in 2002, which got him signing and incentive bonuses. In 2004, however, he informed the team he would no longer play football. The Dolphins subsequently filed a grievance against Williams under the collective bargaining agreement between the National Football League Player's Association and the National Football League Management Council. An arbitration ensued, and the arbitrator sided with the Dolphins on the team's claim for more than $8 million in signing bonus payments it said Williams had forfeited by quitting before his contract expired.

The Dolphins filed suit to confirm the award, and Williams countered with a motion to vacate it.

Federal District Judge James Cohn noted that under the Federal Arbitration Act, judicial review of arbitration awards is "narrowly limited," especially those based on collective bargaining agreements. Williams argued that the award was contrary to public policy and that it disregarded state law. However, the judge didn't agree.

Williams said the default provisions of his contract violated a Florida state law that forbids penalty provisions in contracts. The judge ruled for the Dolphins, saying, that even if the arbitrator got it wrong, at worst, he misinterpreted, misstated or misapplied the proper state law, none of which was enough to "constitute a basis to vacate an award."

Williams argued that the arbitrator's decision went against public policy, and the judge agreed somewhat because in Florida "agreements between parties to apply liquidated damages upon default can be deemed unenforceable as penalty provisions by a court" and the default provisions of the "Dolphins-Williams contract could be construed as valid liquidated damages or as an unenforceable penalty." That said, the judge concluded that the "arbitrator in this case was well within the scope of his authority in interpreting the default provision of the contract in the context of the NFL's [Collective Bargaining Agreement] and Florida Law." The judge added, "The fact that the arbitrator construed the contract in a manner that avoided consideration of whether the actual damages were proportional to the default provisions does not render his decision in manifest disregard or against the public policy of Florida."

As to the issue of whether the default provision in the contract was valid liquidated damages or an unenforceable penalty, the judge agreed with the Dolphins that the fact that the damages "from Williams' breach were not readily ascertainable at the time the contract was signed allows the liquidated damages clause to be valid." Said the judge: "[it] would be difficult if not impossible in 2002 for the parties to ascertain what the damages to the Dolphins would be if Williams breached the agreement in July, 2004."

Finally, Williams said that the "failure of the arbitrator to take evidence on the issue of the causal relationship of the damages" required a remand. The judge noted that while the arbitrator concluded that the default provisions were not penalty provisions, he did allude to "an alternative holding that the Dolphins suffered substantial damages in the form of the lost draft picks traded to the Saints to obtain Williams." Added the judge: "[no] evidence was presented on this issue, and it is not clear whether such value is inherent and/or within the arbitrator's knowledge of 'law of the shop.'"

All these factors made the judge conclude that Williams did not meet his "burden to vacate the arbitration award." The judge therefore confirmed it.

Williams was represented by Edward Soto of Weil Gotshal & Manges in Miami and Jeffrey L. Kessler and David G. Feher of Dewey Ballantine in New York. The Dolphins were represented by Stanley Howard Wakshlag and Christopher Stephen Carver of Akerman Senterfitt in Miami. (*AMF*)

Miami Dolphins v. Williams, 356 F.Supp.2d 1301, 2005 U.S.Dist.LEXIS 2086 (S.D.Fla. 2005)

After DreamWorks won a dismissal of copyright infringement claim over the movie "Evolution," District Court ruled it was entitled to attorneys' fees because there was a "strong need to deter and compensate for" frivolous lawsuits

DreamWorks successfully defended a copyright infringement suit over the movie "Evolution." It was written by Don Jakoby and later rewritten from a science fiction thriller into a comedy by David Diamond and David Weissman. The suit was filed by Dr. Patrick Amadasun who had done extensive research in an attempt to disprove Darwin's theory of evolution. He compiled his research into a book entitled *Evolution* which he registered with the Copyright Office.

District Judge Julie Carnes rejected Amadasun's claims. He had sued DreamWorks for infringing the copyright to a screenplay he claims to have submitted to it in 1999. But Amadasun didn't have a screenplay copyright; his copyright was to a book. Copyright registration is a prerequisite to an infringement suit.

What's more, DreamWorks never had access to his screenplay, because the company has policy to return unsolicited submissions without reviewing them. DreamWorks proved that it returned Amadasun's screenplay without reviewing it. Since Amadasun could not prove that DreamWorks had access to his screenplay, he couldn't prove that DreamWorks copied it.

Amadasun also failed to provide "documents stored electronically" that related to his screenplay, which could have proved that it was created before the DreamWorks screenplay. Nor did he produce return receipts for the submissions that he claims to have made to agents of DreamWorks and other third party studios.

After DreamWorks defeated Amadasun's infringement claim, it moved for attorneys' fees and expenses. After providing a detailed analysis of the non-exclusive "Fogerty Factors," Judge Carnes decided that fees and expenses were warranted in this case. There was a "strong need to deter and compensate for" frivolous lawsuits, she said. And because Amadasun's screenplay was not registered with the copyright office, his claim was frivolous. Also, his contentions lacked evidentiary support. And Judge Carnes considered Amadasun's discovery delays to be evidence of his filing suit in bad faith.

The judge concluded that an award of attorneys' fees would "discourage baseless suits" and "encourage meritorious defenses." For these reasons, Judge Carnes granted DreamWorks' motion for attorneys' fees and expenses.

DreamWorks was represented by Ronald Thomas Coleman, Jr., of Parker Hudson Rainer & Dobbs in Atlanta. Amadasun was represented by Bobby C. Aniekwu & Associates in Atlanta. (*MAR*)

Amadasun v. DreamWorks, 359 F.Supp.2d 1367, 2005 U.S.Dist.LEXIS 7349 (N.D.Ga. 2005)

EMI Music did not breach distribution contract with Avatar Records because the contract asserted by Avatar was not valid

EMI Music never agreed to extend its record distribution contract with Avatar Records. As a result, the contract expired and thus wasn't breached. Federal District Judge Victor Marrero has so ruled, in a lawsuit the two companies have filed against one another.

In early 2000, Avatar contracted to have EMI distribute Avatar's records. The agreement called for EMI to receive a percentage of net sales and allowed it to charge Avatar for each unit that retailers returned and for each slow-moving unit of inventory. During the course of roughly two years, Avatar became indebted to EMI for over $1 million.

In June of 2002 during contract renegotiations, Avatar presented EMI with a proposal that addressed two main issues: (1) the distribution contract's term extension, and (2) Avatar's debt repayment structure. The case ended up in court after contract renegotiations broke down with EMI claiming breach of the current contract. Further, Avatar counterclaimed breach of the very same contract.

The only cause of action that went to the jury was Avatar's breach of contract counterclaim. However, before the jury could rule, EMI moved for judgment as a matter of law, claiming Avatar did not present enough evidence for the jury to find a contract based on promissory estoppel.

Judge Victor Marrero granted EMI's motion. Specifically, there was not a preponderance of evidence that EMI made a clear and unambiguous explicit promise constituting an agreement to Avatar's proposal. The court found that the communications between EMI and Avatar did not even address, let alone agree on, every proposal and thus no contract was formed. Therefore, EMI was granted pre-judgment interest and attorney's fees on its contract claims.

EMI was represented by Michael S. Elkin of Thelen Reid & Priest in New York and Rebecca Calkins of Thelen Reid & Priest in Los Angeles. Avatar was represented by Paul A. Chin in New York. *(ANC)*

EMI Music Marketing v. Avatar Records, Inc., 364 F.Supp.2d 337, 2005 U.S.Dist.LEXIS 5376 (S.D.N.Y. 2005)

Roger Miller's daughter is not entitled to same share of performance royalties from renewed copyrights as his widow, federal Court of Appeals rules, because Copyright Act gives surviving spouse 50% and children of deceased authors equal shares of remaining 50%

BMI collects and then distributes the public performance royalties earned by songs written by Roger Miller, including, for example, "King of the Road." After Miller's death and the renewal of the copyrights to his songs, the Copyright Act gave his widow and children interests in those copyrights. However, as a result of a family feud among the Millers, the widow and children did not agree what percentage of those copyrights – and thus what percentage of the song's performance royalties – each was entitled to receive.

Shannon Miller Turner, Miller's daughter, believed that she was not getting her fair share of the royalties from BMI. Roger Miller Music, to which Miller's widow and all of his children except Shannon had assigned their interests, disagreed. The dispute revolved around which side correctly interpreted section 304(a) of the Copyright Act.

Shannon Miller argued that section 304(a) gives each of the author's children the same share as an author's surviving spouse. Roger Miller Music, on the other hand, contended that section 304(a) gives the surviving spouse half, and the children share the other half equally.

Initially, a federal District Court agreed with Shannon's interpretation. But, in an opinion by Judge Julia Smith Gibbons, a federal Court of Appeals has reversed the District Court's ruling in Shannon's favor.

Judge Gibbons has held that section 304(a) "consistently and cohesively dictates" that the surviving spouse receives 50% of the renewal copyright and the surviving children receive equal shares of the remaining 50%. Judge Gibbons noted that "this interpretation is consistent with the history and purpose of the Act's renewal provisions."

So, as it turns out, BMI and Roger Music Miller had it right; Shannon was getting her fair share all along. Apparently, however, the issue wasn't as clear as they and Judge Gibbons thought, because Judge Martha Craig Daugherty dissented.

Shannon Miller Turner was represented by Jay S. Bowen of Bowen Riley Warnock & Jacobson in Nashville. Roger Miller Music was represented by Walter Robert Thompson in Nashville. (*MAR*)

Broadcast Music, Inc. v. Roger Miller Music, Inc., 396 F.3d 762, 2005 U.S.App.LEXIS 1403 (6th Cir. 2005)

Ashanti must defend breach of contract action alleging she failed to compensate T.E.A.M. Entertainment as required by agreement that released her from exclusive recording contract

In 1996, Ashanti sought the production services of T.E.A.M. Entertainment to record a demo. The first contract between them provided that T.E.A.M. would be paid if the three songs it produced for Ashanti resulted in a recording contract. Then they signed a second agreement which superseded the first and provided that Ashanti would record exclusively for T.E.A.M.

However, the following year, Ashanti decided she no longer wanted to work with T.E.A.M. T.E.A.M. agreed to release Ashanti if she agreed to pay T.E.A.M. a share of the proceeds from her first three albums. And that was the deal they made.

Eventually, Ashanti released two albums that sold millions of copies, but she didn't pay T.E.A.M. In response, T.E.A.M. rescinded the release and filed suit for breach of contract and unjust enrichment.

Ashanti responded to the lawsuit with a motion for summary judgment, hoping to bring the case to end without a trial. Those hopes, though, were dashed when federal District Judge Jed Rakoff denied Ashanti's motion.

According to Ashanti, T.E.A.M.'s recession breached the release agreement, but Judge Rakoff concluded that a jury should decide whether Ashanti willfully breached the agreement, in which case recession would be appropriate. Ashanti made several other arguments that she was not in breach and that T.E.A.M. breached the release. But Judge Rakoff concluded that summary judgment "must be denied" because "the jury could decide those issues either way."

Ashanti also argued that the six year statute of limitations had expired. However, the contract provided that if Ashanti failed to comply with the contract it could be extended. Based on that provision, Judge Rakoff ruled "T.E.A.M.'s action is timely," because it could be reasonably construed that the contract term extended through Ashanti's breach, which T.E.A.M. argues continues today.

Ashanti's motion to dismiss T.E.A.M.'s unjust enrichment claim was also denied, because it was obvious that Ashanti understood she had to compensate T.E.A.M. for its services, after she received a record deal.

Ashanti was represented by Harry M. Stokes in Granite Springs, NY. T.E.A.M. was represented by Cadwalader Wickersham & Taft in New York City. (*MAR*)

T.E.A.M. Entertainment v. Douglas, 361 F.Supp.2d 362, 2005 U.S.Dist.LEXIS 494 (S.D.N.Y. 2005)

Judgment in favor of record producer Scott Storch, rapper Xzibit and Dr. Dre in copyright infringement case brought by songwriter Michael Lowe is affirmed on appeal, because songwriter admitted granting license to Storch

Songwriter Michael A. Lowe claimed that after he let producer Scott Storch hear one of his beats, Storch took it for himself. The beat ultimately made its way into rapper Xzibit's song "X," prompting Lowe to sue Loud Records, Storch, Dr. Dre, Xzibit and others for copyright infringement. A federal District Court in Pennsylvania granted Loud Records and company summary judgment, and awarded them attorney's fees and costs as well.

Lowe appealed, without success. In an opinion by Judge Theodore McKee, the Court of Appeals affirmed the lower court's ruling, stating that "by his own admissions, [Lowe] granted a license for Storch to use the beat Lowe claims to have created." McKee added: "[g]iven that license, Lowe cannot establish a cause of action for copyright."

While Lowe argued that Loud Records should have come forward with "evidence other than [his] own testimony to establish a license," Judge McKee concluded that Lowe failed "to realize that his own testimony is evidence that establishes the license necessary to defeat his claim."

Judge McKee also upheld the attorney's fee award, saying that both the fees and costs were appropriate and reasonable. "Given the complexity of the issues here, . . . Lowe's frivolous claims, and the time involved, we cannot conclude that the district court abused its discretion in awarding the amount of fees it did."

Lowe was represented by John F. Innelli of Innelli Robertson in Philadelphia. Loud Records and company were represented was represented by Michael D. LiPuma in Philadelphia and Howard E. King of King Purtich Holmes Paterno & Berliner in Los Angeles. *(AMF)*

Lowe v. Loud Records, 126 Fed.Appx. 545, 2005 U.S.App.LEXIS 4753 (3rd Cir. 2005)

Creator of "karaoke" recordings of previously recorded hits can't sue for copyright infringement because it did not have license to use underlying musical compositions, federal Court of Appeals affirms

Palladium Music creates sound recordings of popular hits and distributes them as "karaoke music tracks." Palladium's karaoke music tracks are performed by musicians who produce sounds similar to the original artist. Palladium sold its recordings to manufacturers, like Tennessee Production Center, which synchronized the sound recordings with lyrics to produce karaoke products that were later sold on the market.

Palladium understood at least some aspects of copyright law. For example, when Palladium decided to distribute its music online, it registered its tracks with the Copyright Office and then prohibited its customers from distributing those tracks online. Yet, for years Palladium produced and distributed its karaoke tracks without licensing the underlying musical compositions; and that mistake turned out to be legally fatal.

Palladium sued Tennessee Production Center and EatSleepMusic for copyright infringement after discovering that EatSleepMusic was engaged in the online distribution of tracks that Tennessee Production Center had licensed from Palladium. But Palladium's suit was not successful. The District Court granted a defense motion for summary judgment. And in an opinion by Judge Mary Brisco, the Court of Appeals has affirmed that ruling.

Judge Brisco reasoned that Palladium's "copyrights are invalid," because its sound recordings are derivative works and Palladium did not obtain licenses for the underlying musical compositions. Judge Briscoe rejected Palladium's claim that its sound recordings are original. The fact that Palladium's sound recording did not incorporate any pre-existing sound does not mean the sound recordings are original.

"The concept is simple." the judge explained. "In order to use preexisting musical works and sell its sound recordings Palladium must have license, either compulsory or consensual."

Palladium was represented by Philip O. Watts of Watts & Watts in Oklahoma City. EatSleepMusic and Tennessee Production Center were represented by R. Bradford Brittian of Pitts & Brittian in Knoxville. (*MAR*)

Palladium Music, Inc. v. EatSleepMusic, Inc., 398 F.3d 1193, 2005 U.S.App.LEXIS 2399 (10th Cir. 2005)

Hotel owner must pay boxer Fernando Ibarra Maldonado $13.7 million in damages for brain damage caused by delay in medical treatment after he was knocked out during a boxing match at hotel, even though fight promoter had agreed to provide ambulance on site and failed to do so, Missouri Court of Appeals affirms

Gateway Hotel Holdings entered into an agreement with Doug Hartmann Productions to host a boxing match between Fernando Ibarra Maldonado and Thailand's

Ratanachai Son Vorapin. The fight took place at the Regal Riverfront Hotel in St. Louis, Missouri, which Gateway owns. Hartmann agreed to promote the fight. It also agreed to provide an ambulance for the venue, but failed to do so. In the sixth round Maldonado took a knock-out punch that ended the fight. Maldonado lost consciousness after the fight, and because there was no ambulance on-site, it took 34 minutes to get him to a hospital.

Maldonado sued Gateway for damages alleging that Gateway's failure to provide an ambulance on-site caused a delay in his medical treatment, thereby severely damaging his brain. At trial, the jury agreed with Maldonado, and the court awarded the fighter $13.7 million in damages.

The court found Gateway liable under the "inherently dangerous activity doctrine." That doctrine provides that if landowner hires an independent contractor to perform an inherently dangerous activity, the landowner has a non-delegable duty to take special precautions to prevent injury.

In an opinion by Judge William Crandall, the Missouri Court of Appeals affirmed that Gateway hired Hartmann as an independent contractor. Under Missouri law, the "primary consideration is the benefit to the hotel from the relationship." Gateway had a "dual interest": exposure for the hotel and profits. Judge Crandall ruled that Gateway had the ability to minimize exposure to risks, because it maintained control of the premises during the fight and it agreed to "coordinate all aspects" of the event.

Gateway argued that it was not liable because Maldonado's injury was caused by the "collateral negligence" of Hartmann. According to Gateway, Hartmann's negligence was "collateral," because injury caused by the negligent failure to provide medical monitoring is not a contemplated risk inherent in boxing. Usually, the "collateral negligence" of an independent contractor precludes a finding that the landowner is liable. But in this case, Hartmann's negligence was not collateral, Judge Crandall concluded.

The judge rejected Gateway's collateral negligence argument because the "violent nature" of boxing warns a landowner to take "special precaution to prevent further injury from a delay in treatment." What's more, said the judge, "an ambulance on standby was contemplated by the contract."

Judge Clifford H. Ahrens dissented in part. But despite his dissent, the Court of Appeals affirmed the $13.7 million compensatory damage award.

Maldonado was represented by Jeffrey J. Lowe in St. Louis. Gateway was represented by Thomas B. Weaver and Debbie S. Champion in St. Louis. (*MAR*)

Maldonado v. Gateway Hotel Holdings, 154 S.W.3d 303, 2003 Mo.App.LEXIS 1577 (Mo.App. 2005)

Statements by boxer Bernard Hopkins claiming he paid former HBO executive Lou DiBella $50,000 to get his fights on HBO were defamatory, federal appeals court rules in opinion affirming $610,000 judgment for DiBella

Lou DiBella was an executive with HBO, and a "principal architect" of HBO's successful boxing programming. He began negotiations to terminate his employment contract with HBO in January 2000. On May 12, 2000, DiBella and HBO executed a final termination agreement, which gave DiBella several HBO "dates" for broadcasting fights he arranged.

One reason this mattered is that while DiBella was still with HBO, DiBella agreed to give Bernard Hopkins an HBO fight. Another reason is that in February 2000 – before DiBella signed his HBO termination agreement – DiBella agreed to advise Hopkins and assist in his marketing. In return, Hopkins agreed to pay DiBella $50,000 for his services.

Later, after Hopkins and DiBella had a falling out, Hopkins told three reporters and a radio interviewer that the payment was a bribe for the opportunity to fight on HBO. Sports writers characterized Hopkins' statements as allegations that DiBella had been given "payoffs" and "under-the-table" fees.

After pre-trial skirmishing (*ELR* 24:2:16), a jury found that three of Hopkins' four statements were not libelous, but one was. For the libelous statement, the jury awarded DiBella $110,000 in compensatory damages and $500,000 in punitive damages. Then, after post-trial proceedings in the trial court (*ELR* 25:11:24), judgment was entered in DiBella's favor, and both men appealed.

DiBella appealed because he wanted a judgment that all four of Hopkins' statements were libelous. DiBella argued that the trial court should have required him to prove the falsity of Hopkins' comments only by a "preponderance of the evidence," rather than by the more difficult to satisfy standard of "clear and convincing evidence." But, in an opinion by Judge Richard Cardamone, the Court of Appeals held that "clear and convincing evidence" is the standard that the New York Court of Appeals, and a majority of other jurisdictions, would use, and that the trial court had correctly instructed the jury to use that standard.

On his cross appeal, Hopkins argued – without success – that the judgment against him should be reversed for several different reasons. Among them were these:

Hopkins argued that whether the payment was a bribe was a matter of interpretation, and the judgment violated his freedom of speech under the First Amendment. Judge Cardamone ruled that when libel is proved, the libelous speech loses its constitutional protection.

Hopkins argued that DiBella did not prove by clear and convincing evidence that Hopkins' statements were false or that his statements were made with malice. Judge Cardamone ruled that Hopkins was aware that the payment was not a bribe when he made the statements. Thus, there was clear and convincing evidence of falsity and malice.

Hopkins argued that the judgment should be reversed, because it was inconsistent for the jury to find that he did not libel DiBella with some statements, but did so with other similar statements. Judge Cardamone ruled that Hopkins waived this argument by failing to raise an objection while the jury was still empanelled.

Hopkins argued that there was insufficient evidence to support an award of $500,000 in punitive damages, and that such an award was excessive. Judge Cardamone ruled there was sufficient evidence to support punitive damages.

DiBella was represented by Judd Burstein in New York City. Hopkins was represented by Stephen A. Cozen of Cozen O'Connor in Philadelphia. (*AR*)

DiBella v. Hopkins, 403 F.3d 102, 2005 U.S. App. LEXIS 5332 (2d Cir. 2005)

Main Events loses motion for summary judgment in suit against boxer Jeff Lacy; federal District Court rules that Main Events may have violated Muhammad Ali Boxing Reform Act which requires financial disclosures to be made by promoters directly to boxers before fights, because Main Events made them to Lacy's manager Shelly Finkel, rather than to Lacy himself, and did so after Lacy's fights

Main Events Productions failed to deliver the knockout blow it sought in a lawsuit it filed against pugilist Jeff Lacy.

In December of 2000, Lacy entered into a Promotion Agreement with Main Events, giving the company the exclusive rights to promote the fighter and pay Lacy's guaranteed purses. Unhappy with the terms of the deal, Lacy tried to terminate the Promotion Agreement in June of 2002. Main Events responded by filing suit against Lacy for breach of contract. In response, Lacy filed a counterclaim alleging that Main Events breached the fight promotion contract by not complying with the Muhammad Ali Boxing Reform Act.

The Ali Act stipulates that before a promoter can receive compensation for a fight it must provide a boxer with disclosures prior to a fight, concerning compensation it would receive for a prize fight involving the fighter. In order to assert that an Ali Act violation occurred, the fighter must suffer an economic injury. Lacy alleged he suffered an economic injury as a result of never receiving the compensation disclosures from Main Events, concerning fights he participated in. Without the financial disclosures from Main Events, Lacy alleged he was unable to gauge his fair market value.

Main Events argued that it had fully complied with the Ali Act since it had made the required financial disclosures to Lacy's manager, Shelly Finkel. It is uncontested that Finkel did receive the disclosures for every fight promoted by Main Events involving Lacy.

While Finkel signed and returned the disclosures to Main Events, Finkel stated that he did not review with or transmit to Lacy any of the disclosures. Evidence was also submitted concerning the timing of the disclosures made to Finkel. Disclosures made to Finkel were received after each fight as opposed to before each fight as required by the Ali Act.

Federal District Judge Dickinson Debevoise denied Main Events' motion for summary judgment because it had violated the disclosures requirement of the Ali Act. The Ali Act specifically states that promoters must make mandated disclosures directly to "boxers." The statute fails to mention the term "manager" or the ability of managers to receive mandated disclosures. Judge Debevoise also denied summary judgment because a genuine issue of material fact existed as to whether Main Events was in compliance with the Ali Act when it submitted the financial disclosures to Finkel after each fight.

Main Events was represented by Patrick C. English of Dines & English in Clifton. Jeff Lacy was represented by Judd Burstein in New York City. (*JCL*)

Main Events Productions v. Lacy, 358 F.Supp.2d 391, 2004 U.S.Dist.LEXIS 27261 (D.N.J. 2004)

Sports agent Tom Condon waived right to arbitrate case filed against him and IMG by agent Lamont Smith accusing Condon of defamation and intentional interference with prospective contractual relations, federal District Court decides

After sports agent Tom Condon allegedly said that agent Lamont Smith had alienated NFL general managers by "playing the race card during contract negotiations," for the supposed purpose of dissuading college football player Kenyatta Walker from signing with Smith, Smith sued Condon and his employer, IMG Worldwide, for defamation and intentional interference with prospective contractual relations. After the case was kicked from a Philadelphia state court to federal court (because of diversity), Condon moved to compel

arbitration and IMG filed a motion to stay the lawsuit.

Federal District Judge Jan Dubois agreed that Smith's claim was arbitrable. But the judge ruled that Condon had waived his right to arbitrate "by failing to timely initiate a request for arbitration and actively litigating for sixteen months, resulting in prejudice to [Smith]."

The Federal Arbitration Act generally requires "courts to enforce an applicable arbitration agreement upon motion by one of the parties." Condon and IMG argued that Smith's claims fell under two sections of the National Football League Players Association Regulations Governing Contract Advisors. While Judge Dubois found that one section did not fit because it applies only to interference with existing, not prospective, contractual relations, the other section did require arbitration. That section covers acts of "providing false and/or misleading information to any player or prospective player in the context of recruiting a player as a client." Said Judge Dubois: Condon's "alleged conduct clearly qualifies" under this section.

Judge Dubois nevertheless concluded that arbitration was not required in this case. Condon "engaged in motion practice"; he "requested and provided substantial discovery"; he "assented to Court Orders"; and he litigated vigorously at "every stage," which caused Smith to devote "substantial amounts of time, effort, and money, in prosecuting the action." This, said the judge, "resulted in significant prejudice to" Smith, and warranted "a finding of waiver of the right of arbitration." The judge so ruled despite arguments by Condon that he had been unaware that Smith's allegations fell within the scope of the NFL Regulations Governing Contract Advisors.

As a result, the judge denied Condon's and IMG's motions "on the ground Condon waived his right to arbitrate by not timely requesting arbitration and actively litigating the case for sixteen months."

Smith was represented by George W. Croner of Kohn Swift & Graf in Philadelphia. Condon and IMG were represented by Samuel J. Pace of Dugan Brinkmann Maginnis and Pace in Philadelphia. *(AMF)*

Smith v. IMG Worldwide, 360 F.Supp.2d 681, 2005 U.S.Dist.LEXIS 8744 (E.D.Pa. 2005)

Wardrobe stylist Susan Moses is entitled to trial in case against Deborah Martin Agency prompted by Agency's alleged underreporting of collections from Moses' celebrity customers

Susan Moses provides wardrobe services to celebrities. In 1997, she entered into a contract with the Debra Martin Agency to represent her as her manager in return for 20% of her revenues. According to Moses, the Agency took more than 20% of her revenues and falsely claimed that it had not been paid by Moses' clients.

As a result, Moses sued the Agency and its owner Deborah Martin, for breach of contract, negligent misrepresentation, unjust enrichment, conversion, fraud, and violations of the RICO Act. Martin and the Agency responded with a motion to dismiss all of Moses' claims for failure to state facts for which relief could be granted. Their motion has been largely unsuccessful.

First, Martin argued the claims against her individually should be dismissed for failure to allege facts sufficient to pierce the Agency's corporate veil. Judge Shira Scheindlin, however, ruled that the complaint did allege facts sufficient to show that Moses used the Agency as her corporate alter ego.

Martin also argued the complaint did not allege acts that amount to "conversion." Conversion requires acts that are "unlawful" or "wrongful" rather than just violations of contract rights. Judge Scheindlin ruled that the Agency's alleged retention of the payments it collected from Moses' customers without authorization, and in defiance of Moses' right to 80% of those payments, was enough to establish conversion as an action distinct from any breach of contract claim.

Next, Martin argued that no fraud had been alleged. Judge Scheindlin ruled that Moses alleged that Martin falsely told Moses she was not owed money and stated that she had not been paid by her clients, which induced Moses to enter into additional contracts with Martin. Also, Martin argued that the fraud claim was merely a restatement of Moses' breach of contract claim and should be dismissed for that reason. Judge Scheindlin ruled the Agency owed Moses a fiduciary obligation beyond the terms in the contract, because Moses allegedly relied upon the advice given by Martin because of her superior knowledge and expertise.

Martin was successful with her argument that Moses' RICO claims should be dismissed. For one RICO claim, the complaint had to show that Martin used or invested racketeering income to acquire or maintain an interest in an enterprise, and an injury occurred because of the investment in the enterprise. Judge Scheindlin ruled that Moses did not allege any injury caused by Martin's investment in the enterprise. For another RICO claim, the complaint had to show that the enterprise is "distinct" from its controlling person. Moses alleged that the "person" was "Martin and other individuals" and the "enterprise" was the Agency. Judge Scheindlin therefore ruled that the distinctness requirement was not satisfied. Thus, Judge Scheindlin did dismiss Moses' RICO claims.

Moses was represented by Carmen S. Giordano in New York City. Martin and her Agency were represented by Candace C. Carponter in New York City. (*AR*)

Moses v. Martin, 360 F.Supp.2d 533, 2004 U.S. Dist. LEXIS 24568 (D.N.Y. 2004)

DirecTV may bring private civil cases against users of pirate access devices under federal wiretap laws, federal Court of Appeals rules

After Dennis Nicholas allegedly intercepted the encrypted satellite transmissions of DirecTV using a so-called pirate access device, the company sued Nicholas under the federal wiretap laws seeking money damages. The lower court held that DirecTV could not maintain a civil action against Nicholas, but the United States Court of Appeals for the Fourth Circuit has overturned that ruling.

Writing for the appellate court, Judge Clyde Hamilton analyzed whether DirecTV could maintain a civil action against Nicholas pursuant to 18 U.S.C. sections 2511 and 2520. Using a plain language analysis, Judge Hamilton easily concluded that "using a pirate access device to intercept the encrypted satellite transmissions of a satellite television provider constitutes a violation of Section 2511(1)(a)."

The "rub," as the judge put it, was "whether an individual victim of a Section 2511(1) violation can bring civil action against a Section 2511(1) violator." This issue required a language analysis of Section 2520, which provides that "any person whose wire, oral, or electronic communication is intercepted, disclosed, or intentionally used in violation of this chapter may in a civil action recover from the person or entity . . . which engaged in that violation such relief as may be appropriate."

Relief under the statute includes preliminary or other equitable or declaratory relief and punitive damages in appropriate cases. The section allows the computation of damages in two ways, one of which applies to all actions, including those based on the interception of encrypted messages such as the signals that DirecTV sends to its customers. Noting that the language is applicable to DirecTV's claim against Nicholas, Judge Hamilton said that "[b]ecause DirecTV alleges that Nicholas intercepted its encrypted satellite transmissions, DirecTV may maintain its private cause of action against Nicholas."

The judge said that this conclusion was consistent with an earlier Fourth Circuit decision that had disallowed a private action, because that earlier case was brought under an old version of Section 2520 which has since been amended. He added that Congress' decision to provide the two methods of computing damages under the current version as "eminently reasonable," because it takes into account less serious offenses. In concluding, the judge said "[t]he language of the statutes at issue is plain and we perceive no absurdity in our interpretation or application."

Therefore, he remanded the case back to the lower court for further proceedings consistent with the appellate court's ruling that DirecTV could bring its cause of action against Nicholas for his "alleged interception of DirecTV's encrypted satellite transmissions."

DirecTV was represented by Howard Robert Rubin of Sonnenschein Nath & Rosenthal in Washington D.C. Nicholas was represented by Martin Kline in Raleigh, North Carolina. *(AMF)*

DirecTV Inc. v. Nicholas, 403 F.3d 223, 2005 U.S.App.LEXIS 6077 (4th Cir. 2005)

DEPARTMENTS

Entertainment Lawyer News:

Francie Gorowitz joins Katten Muchin Rosenman in Los Angeles. Francie R. Gorowitz has joined Katten Muchin Rosenman as a partner in its Intellectual Property and Entertainment & Media Practices in Los Angeles. Prior to joining Katten Muchin Rosenman, Gorowitz was Counsel to O'Melveny & Myers in Los Angeles where she created and managed the firm's Trademark Prosecution Practice, clearing, obtaining and registering trademarks and trade names for that firm's entertainment industry and other clients, as well as resolving conflicts. Prior to that, she spent 15 years as a partner with the law firm of Ladas & Parry in Los Angeles. Gorowitz started her career as a Trademark Examiner at the U.S. Patent and Trademark Office. She received her Bachelor of Arts degree, *magna cum laude*, from the State University of New York in 1977 and her Juris Doctor from Albany Law School in 1980. She is admitted to both the California and New York Bars.

In the Law Reviews:

Reality Check: Recent Court Decision Indicates Traditional Copyright Analysis May Protect Reality TV Shows from Infringement by Daniel A. Fiore and Samuel E. Rogoway, July-August Los Angeles Lawyer Magazine 34 (2005) (www.lacba.org/lalawyer)

THE COLUMBIA JOURNAL OF LAW & THE ARTS has published a symposium issue entitled Metamorphosis of Artists' Rights in the Digital Age with the following articles:

Keynote Address by Graeme W. Austin, 28 The Columbia Journal of Law & the Arts (2005)

Restoring the Balance: Panel on Contracting and Bargaining, 28 The Columbia Journal of Law & the Arts (2005)

Artists Don't Get No Respect: Panel on Attribution and Integrity, 28 The Columbia Journal of Law & the Arts (2005)

What's Next: Panel on New Issues, 28 The Columbia Journal of Law & the Arts (2005)

THE LOYOLA OF LOS ANGELES ENTERTAINMENT LAW REVIEW has published Volume 25 Number 2, with the following articles:

What's Wrong With This Picture? Dead or Alive: Protecting Actors in the Age of Virtual Reanimation by Joel Anderson, 25 Loyola of Los Angeles Entertainment Law Review (2005)

What Is So B-A-D About D.A.B.? How High Definition Radio Affects the Producers of Sound Recordings by Scott Franklin, 25 Loyola of Los Angeles Entertainment Law Review (2005)

Your Karma Ran Over My Dogma: Bikram Yoga and the (Im)Possibilities of Copyrighting Yoga by Jordan Susman, 25 Loyola of Los Angeles Entertainment Law Review (2005)

ENTERTAINMENT AND SPORTS LAWYER, published by the Forum on the Entertainment and Sports Industries of the American Bar Association, http://www.abanet.org/forums/entsports/esl.html, has issued Volume 23 Number 1 with the following articles:

Grokster v. Sony: The Supreme Court's Real Decision by Michael A. Einhorn, 23/1 Entertainment and Sports Lawyer 1 (2005) (for website, see above)

Rock Music Posters and the Law by Nels Jacobson, 23/1 Entertainment and Sports Lawyer 1 (2005) (for website, see above)

What's in a Name? (Or, Why Pay Millions to Name a Building?) by Maidie Oliveau, 23/1 Entertainment and Sports Lawyer 1 (2005) (for website, see above)

Entertainment Law Ethics: Part 3 by Cydney A. Tune, 23/1 Entertainment and Sports Lawyer 2 (2005) (for website, see above)

P2P Legislation: Toward a More Sensible Solution by Dan Pontes, 23/1 Entertainment and Sports Lawyer 14 (2005) (for website, see above)

Book Review: Sports and Inequality by Michael J. Cozzillo and Robert L. Hayman, reviewed by Elsa Kircher Cole, 23/1 Entertainment and Sports Lawyer 34 (2005) (for website, see above)

Choice of Law in International Copyright: The Split of Authority Between the Second and Ninth Circuits Regarding Extraterritorial Application of the Copyright Act by Robert H. Thornburg, 10 Journal of Technology Law & Policy of the University of Florida Levin College of Law (2005)

The Dialectic Relationship Between Different Concepts of Property Rights and Its Significance on Intellectual Property Rights by Vincenzo Vinciguerra, 10 Journal of Technology Law & Policy of the University of Florida Levin College of Law (2005)

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Sample This! Musical Digital Samplers Need to Clear Rights for Both the Musical Composition and the Sound Recording by Astride Howell, 28/6 Los Angeles Lawyer Magazine 24 (2005) (published by the Los Angeles County Bar Association)

Closing Argument: Reconsidering the Winners and Losers in MGM Studios v. Grokster by Ian C. Ballon, 28/6 Los Angeles Lawyer Magazine 60 (2005) (published by the Los Angeles County Bar Association)

THE ENTERTAINMENT LAW REVIEW, published by Thomson and Sweet & Maxwell, www.sweetandmaxwell.co.uk, has issued Volume 16, Issue 6 with the following articles:

The Digital Music Revolution-How Will Traditional Rights Operate in the On-line Music World? by Nigel Davies, 16/6 Entertainment Law Review 137 (2005) (for website, see above)

A Difficult Future for Reforms on Collective Management Rights by Maria Mercedes Frabboni, 16/6 Entertainment Law Review 144 (2005) (for website, see above)

Anonymity Orders and Media Censorship in the "New Era" of Human Rights by Paul Dougan, 16/6 Entertainment Law Review 150 (2005) (for website, see above)

Copyright Infringement or is it just Fair Dealing?: Fraser-Woodward Ltd v. BBC and IPC Media Ltd v News Group Newspapers by Tanya Theobold, 16/6 Entertainment Law Review 153 (2005) (for website, see above)

Arnold Schwarzenegger Case Not Terminated! by Mark Lewis and Charlotte Hinton, 16/6 Entertainment Law Review 156 (2005) (for website, see above)

Heroes or Villains? Marvel Seeks to Enforce Image Rights in Online Gaming by Phil Lee, 16/6 Entertainment Law Review 159 (2005) (for website, see above)

Book Review: Law's Moving Image by Leslie J Moran, Emma Sandon, Elena Loizidou and Ian Christie (Eds), 16/6 Entertainment Law Review 162 (2005) (for website, see above)

Do We Have Too Many Intellectual Property Rights? by the Honorable Richard A. Posner, 9 Marquette Intellectual Property Law Review (2005)

The Inconsistency Between Section 301 and TRIPS: Counterproductive with Respect to the Future of International Protection of Intellectual Property Rights? by Lina M. Monten, 9 Marquette Intellectual Property Law Review (2005)

The Demise of Sport? The Effect of Judicially Mandated Free Agency on European Football and American Baseball by Jesse Gary, 38 Cornell International Law Journal 293 (2005)

Sex, But Not the City: Adult-Entertainment Zoning, the First Amendment, and Residential and Rural Municipalities, 66 Boston College Law Review 625 (2005)

Technological Protection Measures (TPMs) and Copyright Protection: The Case for TPMs by Barry B. Sookman, 11 Computer and Telecommunications Law Review 143 (2005) (published by Sweet and Maxwell, www.sweetandmaxwell.co.uk)

THE EUROPEAN INTELLECTUAL PROPERTY REVIEW, www.sweetandmaxwell.co.uk, has published Volume 27 Numbers 8 and 9, with the following articles:

Putting the Cart Before the Horse in New Zealand Copyright Law by Louise Longdin, 28/8 European Intellectual Property Review 283 (2005) (for website, see above)

Major Problems on IPR Protection in China: A View of Civil Procedure by Li Hua, 28/8 European Intellectual Property Review 285 (2005) (for website, see above)

Copyright in Photographs: A Case for Reform by Richard Arnold, 27/9 European Intellectual Property Review 303 (2005) (for website, see above)

A Simplified Approach to Computer-Generated Evidence and Animations by Gregory P. Joseph, 22 The Computer and Internet Lawyer 17 (2005) (published by Aspen Publishing, edited by Arnold & Porter)

Educational Programs Calendar:

2005 ABA Forum on the Entertainment and Sports Industries, October 6-8, Marriott Marquis Times Square, New York City. The ABA Forum will devote sessions to Ethical, Professional and Legal Implications of Addiction; Cross Platform Management and Exploitation of Intellectual Property; Entertainment Law Litigation Review: Is There Really Any Law and Order?; Fair Use or Grand Theft: The Digitization of Knowledge on the Internet; The Intersection of Sports Marketing, Sports Media and Digital Technology: Legal and Business Affairs Perspectives; Music in Advertising: The Sources, the Rights and the Deals; the FCC and the Changing and Expanding Application of Indecency Standards to Television and Radio; Las Vegas: The Present and Future of the Theatrical Event; Broadcast: The Mechanics and Content for Broadcast Packages; Celebrities, Artists, Photographers, and Merchandisers: Competing Rights in Visual Images; Song and Underscore Agreements in the Film and Videogame Industries; Linking Advertisers to Television Programming and Music: What Do Advertisers Really Want?; Drug Testing in the Future; and Public Art: Issues and Opportunities. The keynote speaker will be Henry S. Schleiff, Chairman and CEO of Court TV and the Ed Rubin Award will be presented to Michael Rudell. For further information, visit www.abanet.org/forums/entsports.

The 2005 IP and the Internet Conference, Friday, October 14, The Santa Clara Westin Hotel, Santa Clara, California. The program, sponsored by the Copyright and Computer Law Subcommittees of the Intellectual Property Law Section of the State Bar of California, delves into Liability in a Software Intensive World; Cable Law Update; Open Source in Corporate Environments; Closing the Time-Assurance Gap, the luncheon presentation by Zafar Khan of Rpost US, Inc.; Keyword Advertising and Pop-Ups; International Privacy Laws v. Internet Business; and Grokster and the Future of P2P. For online registration, go to www.calbar.ca.gov/ipsection or call 415-538-2508.

15th Annual Entertainment Institute Legal and Business Aspects of Music, Motion Pictures, and Digital Entertainment, October 21-22, Omni Hotel, Austin, Texas. The Texas Bar CLE offers a state of the industry review of hot legal issues presented by leading professionals, Lon Sobel, editor of the Entertainment Law Reporter, Steve Winogradsky of the Winogradsky Company, William Krasilovsky, author of This Business of Music, Stan Soocher, editor of Entertainment Law and Finance, Susan Butler, legal editor for Billboard Magazine and many others. Topics will include Global Copyright Protection; Copyright in a Digital World; Royalty Collections at Home and Abroad; Recording Contracts; Ethics for Entertainment Attorneys; Estate Planning Issues for Copyright Owners; International Trademark Protection; Drafting Entertainment Industry Contracts; Money for Movies; Producing Musical Theater; and Film Production and Distribution Case Studies. For more information, to register, or to view the program, please go to www.TexasBarCLE.com.

The Sound of the Deal: 2005 IPELS 29th Annual Symposium, October 29, Hotel Bel Air, Los Angeles. Sponsored by the Los Angeles County Bar Association's Intellectual Property and Entertainment Law Section in conjunction with the Southwestern University School of Law's Donald E. Biederman National Entertainment and Media Law Institute, the panels will examine Artist/Publishing Deals; Royalties, Rights and Remuneration; Future of Digital Distribution and Keynote Speaker Les Bider, Immediate Former Chairman and CEO of Warner/Chappell Music, Inc. For further information, register online at http://calendar.lacba.org, call (213) 896-6560 or mail to Member Services Department, Los Angeles County Bar Association, PO Box 55020, Los Angeles, CA 90055-2020.

Copyright-From Traditional Concepts to the Digital Age: A Panoramic Overview of the Highly Dynamic Landscape of Copyright Law, November 7-8, The Downtown Conference Center at Pace University, New York City. Presented by Lexis-Nexis, the program will provide state-of-the-art insight into copyright law by the experts David Nimmer, author of Nimmer on Copyright, and of counsel to Irell and Manella; UC Berkeley Boalt Law School Professor and Director of the Berkeley Center on Law and Technology Peter Menell; and Southwestern University Professor and Editor and Publisher of the Entertainment Law Reporter Lon Sobel. The sessions examine The Copyright Navigator: Analysis of This Useful Tool to Help You Be More Effective in Your Practice; Big Picture Overview of Copyright: From the Printing Press to the Digital Age; Protecting and Limiting Doctrines; Ownership including Duration, Termination of Transfer and Foreign Ownership; "A Comprehensive History of American Copyright Law in 40 Minutes (or Less)"; Digital Copyright including Anti-circumvention; Copyright Management Information; ISP Safe Harbors; Indirect Liability (Grokster) and Enforcement; Copyright Companions and Preemption including the Right of Publicity, Idea Protection and Trademark Law; Licensing, Traditional, Digital and Open Source; and Copyright Assets including Security Interests, Bankruptcy and Insurance. For additional information, call 1-800-MEALEYS or (610) 768-7800; FAX (610) 768-0880; e-mail mealeyseminars@lexisnexis.com or online at www.mealeys.com/conferences.