

Electronic Arts Settles a Class Action Overtime Lawsuit for \$15.6 Million: Red Flags and Practical Lessons for the Entertainment Software Industry

by Daniel H. Handman

By recent estimates, the video game industry has topped \$7 billion a year in revenues. The industry leader is Redwood City, California-based Electronic Arts, maker of popular “Madden NFL,” “Lord of the Rings” and other sports and fantasy games.

For years, the common perception of software entertainment employees was burnt-out hippies or high school dropout-savants who play video games for a living, wear jeans to work on dress days and play ping pong on company property to take a break from their hard labor. All the while, these employees earn six figure salaries or close to it. In other words, it was widely seen as a nice way to earn a living. Indeed, so well-regarded was EA that in 2003 it made the *Forbes* list of “100 Best Companies To Work For.”

That was until July 2004 when EA was sued by roughly 200 graphic artists, animators and other artists who claimed that they were forced to work dozens of hours a week in overtime without compensation. All of a sudden, the bad press began. A website authored by the anonymous “EA spouse” detailed her husband’s plight working 2 months straight through weekends and holidays on a “crunch” project. The *New York Times* and *L.A. Times* took up the cause, publishing articles comparing EA to a Dickensian sweat shop.

\$15.6 million. That’s what EA paid to the employees to settle the case. The number is significant for several reasons. First, it represented a whopping average payment of almost \$80,000 to each potential class member. More importantly, though, EA almost certainly paid these damages out of its own pocket because damages for overtime violations are almost always uninsurable.

EA operated under the assumption that it could force the employees to work such long hours because they were not entitled to overtime no matter how many hours they worked. That is, EA believed incorrectly that the employees were subject to one or more of the many exemptions to the overtime laws.

This article explores the relatively barren territory of the application of overtime laws to the entertainment software industry. And, it asks the questions on everyone’s mind: What did EA do wrong? And, can we avoid it?

“Crunch Time:” The Long Hours Worked By Video Game Software Artists

Although it was little-known outside the industry, it was well-known among video game artists that their jobs were particularly time-consuming. According to an anonymous survey conducted by the International Game Developers’ Association (IGDA), the vast majority of game developers worked at least 46 hours a week. That is significant, of course, because federal overtime laws require payment at 1.5 times the regular rate of pay for each hour worked in excess of 40 hours in a week. Under California state law, if an employee works greater than 8 hours a day, he is eligible for overtime compensation. California law, therefore, provides employees with much greater protection than does federal law. For example, if an employee works 12 hours a day, 3 days a week, he is entitled to no overtime under the FLSA because he works less than 40 hours in a week. In California, however, the employee is entitled to 12 hours of overtime because on three days, he worked 4 hours in excess of the 8 hour limit (3 days X 4 hours = 12 hours of overtime).

Of more concern, however, were trends reported by employees about “crunches” – extended periods of time needed to complete programming on a new game. Almost every person surveyed reported that his employer had “crunches” at some time. More than a third surveyed worked 65 to 80 hours a week when there was a “crunch” and more than 13 percent reported that they worked greater than 80 hours a week during “crunch” time.

An Overtime Primer

This is all significant because of the protection afforded employees under federal and state overtime laws. Federal legislation regulating the hours worked by

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employees and mandating the payment of “overtime” to employees who worked long hours was enacted as part of the New Deal in the 1930’s. Several states followed suit with overtime laws of their own, many of which – most notably, California – provided for payment of overtime to employees not protected by the federal statute and/or at a different rate than as calculated under that statute.

The purpose behind the legislation was to protect employees that were unsalaried, low paid and with the least ability to control their hours of work. To that end, both the federal statute, the Fair Labor Standards Act (FLSA), and most state laws exempted certain classes of employees who were typically well paid and afforded significant discretion at work.

The FLSA and state overtime laws have not changed much since the 1930’s and, as a result, they are notoriously outdated and difficult to understand. For example, while FLSA regulations provide ample guidance on overtime treatment of telephone operators and maple sap producers, they are silent as to employees in telecommunications, computer and other emerging industries.

The consequences for misclassifying employees, however, are well-understood. Misclassified employees can recover two to three years worth of unpaid overtime, an equal amount in liquidated damages (sometimes more under state law) and attorney’s fees. Under California law, the consequences are even worse. In addition to much of the above, misclassified California employees can recover a variety of penalties which often exceed the amount of overtime actually owed to the employees.

Moreover, the nature of overtime cases makes them particularly susceptible to class action treatment in court. Indeed, so common are overtime class actions that the FLSA actually includes a separate section dealing with so-called “collective actions” for unpaid overtime. The class action rules for overtime lawsuits under state law are typically worse than under the FLSA. Under the FLSA, a collective action is treated as an opt-in action; that is, a party has to voluntarily agree to become a member of the class. By contrast, under state law, class actions are almost always opt-out proceedings, under which a class member automatically remains a member of the class unless he takes some action to remove himself from the class.

The Overtime Exemptions

Given their relatively high compensation packages, video game artists were not the types of employees traditionally thought to be subject to overtime . . . or so EA thought. EA operated under the mistaken assumption that its employees were exempt from the overtime laws. Two such exemptions – both which involve “professional” employees – were potentially implicated.

The Computer Professionals Exemption

The first was the computer professionals exemption. Unlike the other, 1930’s-era exemptions, a computer professionals exemption, added to the FLSA in 1990 (and to California’s overtime law in 2000) was an attempt to have the overtime laws reflect the makeup of today’s workforce. Unfortunately, it was written in a way that, the U.S. Department of Labor (DOL) conceded, was “particularly confusing.”

The scope of the exemption, though blurry, is very narrow. As a general principle, the exemption applies only to salaried computer systems analysts, programmers or software engineers who do any of the following: (1) apply systems analysis techniques and procedures to determine hardware and software specifications; (2) design computer systems; (3) create or modify computer programs based on system design specifications; or (4) create or modify computer programs related to machine operating systems.

The exemption is even more circumscribed under California law. In addition to the same general requirements under the FLSA, exempt computer professionals in California must also: (1) “exercise discretion and independent judgment;” (2) be “highly skilled and proficient” in the “theory” and “practical application” of computer programming; and (3) receive compensation at an hourly rate of at least \$41.00 (at 40 hours a week, just over \$85,000 annually). The FLSA requires that exempt computer professionals receive an annual salary of nearly \$24,000 or hourly pay at \$27.63 an hour. Moreover, the computer professional exemption once contained the “highly skilled” and “discretion and independent judgment” requirement, but they were removed by virtue of a modification to the FLSA regulations which took effect on August 23, 2004.

Because of the relative newness of the exemption, there is very little case law on it. Indeed, at the time the EA case was filed, DOL had issued a total of two opinion letters on the exemption as a whole and there was not a single reported opinion which applied the exemption – either under the FLSA or under California law – to video game artists.

The Creative Professional Exemption

The creative professional exemption was the only other potentially applicable exemption. To satisfy the creative professional exemption, an employee’s “primary duty” (generally half of his work) must require “invention, imagination, originality or talent in a recognized field of artistic or creative endeavor.” In addition, he must be paid on a salary basis and consistently exercise “discretion and independent judgment.”

Traditionally, the courts recognized that actors, musicians, composers, artists, and writers all had the

duties required to satisfy the creative professional exemption. In the 1980's and 1990's, the focus of litigation over creative professionals shifted to journalists, editors and producers on television news programs.

The advent of the computer age, however, changed the way employers and the courts viewed the creative professional exemption more than any other technological advance. In a 1996 opinion letter, DOL recognized for the first time that a graphic artist could be subject to the creative professional exemption, so long as he was performing tasks that were original and creative in nature.

However, like the computer professional exemption, the government's attempts to get with the times were unavailing for most high-tech employees. When the EA case was filed, there was not a single reported opinion applying the creative professional exemption to video game artists.

What Went Wrong At EA

Ask 10 employment lawyers to audit your workforce for overtime exemptions and you will get 10 different analyses. Indeed, they will invariably tell you that, particularly with employees in emerging fields, it is largely a guessing game whether any exemption applies – hardly of any comfort to employers. You will be told that your options are: (1) to seek an opinion letter from the Department of Labor; (2) to assume that no exemption applies; or (3) to assume that an exemption applies.

None of those options are particularly appealing. Option 1 only works if DOL opines that an exemption applies, an event which, most employment lawyers will tell you is rare; and Options 2 and 3 only work if you guess right.

Now, it is not so up in the air for every employee. For example, programmers who regularly supervise two other full-time employees and have the authority to make hire/fire decisions are probably exempt as executives. Engineers with advanced degrees in computer science likely are exempt "learned" professionals.

With that in mind, it is hard to fault EA; that is, EA faced the choice presented to most employers in emerging technology industries and just guessed wrong. There were, however, several red flags that should have led EA to believe that the class members were non-exempt and, at the very least, to take some action to mitigate their potential exposure.

The Computer Professional Exemption Was Inapplicable

First, EA should have recognized that the computer professional exemption was probably inapplicable. The complaint was brought on behalf of a class of

"animators, modelers, texture artists, computer graphic artists, lighters, visual effects artists and environmental artists." Impressive-sounding titles, indeed.

However, under the overtime laws, job titles and job descriptions are largely irrelevant. What matters, instead, is the employee's actual practice – what tasks he performs on a regular basis.

For EA, the process was as follows. A producer would create the macro "master design" for the game and set a schedule for tasks to be completed. Engineers would do the programming and "concept artists" would create the visual images which would be incorporated into the game. To this point, all of the employees described above likely are exempt, either as executives, learned professionals, computer professionals and/or creative professionals.

The class members, however, did none of the above, according to the complaint. Rather, the procedure as pertains to them was as follows: (1) modelers create a 3-dimensional image based on the image created by the concept artists; (2) texture artists copy it onto the computer; (3) animators give motion to the image, allowing it, for example, to walk, run or use a sword; and (4) lighters create the computerized background or environment.

EA undoubtedly believed that these were exempt duties under the computer professional exemption, specifically the section that pertains to employees who "modify computer programs based on system design specifications." Perhaps that is true, but that analysis is incomplete. First, at least according to the Complaint, the employees exercised virtually no "discretion and independent judgment," as required by California law. To the contrary, the Complaint alleged that every day, these employees had supervisors literally stand over their shoulders to direct their work. Moreover, many of the employees did not meet the minimum salary threshold required by California law. If either of those two facts were established, they would be fatal to EA's argument on the computer professional exemption. (Granted, the Complaint is a one-sided collection of unproven allegations against EA which were never established in court and which were assumed to be true for purposes of EA's attempt to have the case dismissed. Nonetheless, in any overtime misclassification case, the employer bears the burden of proving that an exemption applies and must do so by "substantial evidence." Given the size of the settlement, it is safe to conclude that EA believed that it would have difficulty meeting its burden.)

The Creative Professional Exemption Was Also Inapplicable

The only question facing EA was whether it should have treated the employees as exempt creative professionals. The creative professional issue was a closer call. That is, an argument could be made that the

employees were using their “invention, imagination, originality or talent” to create the images that adorned the video game. And, it seems fair to conclude that graphic video game design should constitute a “recognized field of artistic or creative endeavor.”

The real problem, however, was that their jobs involved no discretion and no judgment. The employees could not decide how fast to make Michael Vick run or how tall to make Bilbo Baggins. Those decisions were all made by producers and art directors who, according to the complaint, literally looked over the shoulders of the class members while they performed their daily work activities. The absence of any meaningful discretion was fatal to EA’s argument.

How Software Entertainment Employers Can Avoid The Same Problems Or At Least Cut Their Losses

The plainest problem with the course of action chosen by EA is not really legal in nature, but common sense. It is as simple as this: disgruntled employees are the most likely to sue their employer. Permitting low-level employees to work 60, 70 or 80 hours a week without extra compensation and without ever confronting the issue with the employees is a recipe for disaster.

Does this mean that EA and others are prohibited from having employees work such long hours? Does it mean that EA should have artificially ramped up salaries for employees who work long hours? Of course not. But, EA should have recognized that once a plaintiff’s lawyer heard that EA’s employees were working 60, 70 or 80 hours a week, the lawyer would smell blood and would not relent until it was conclusively proven that they were exempt.

To that end, there were some common-sense steps that EA could have taken – and that others in similar positions still can take – to guard against liability for misclassification and/or to limit the damages that ultimately comprised the settlement. Here are a few:

(1) Give Lower-level Employees More Discretion

The most often litigated issue in overtime cases is the “discretion and independent judgment” element that is required for most exemptions. Although there is no hard and fast rule, the more discretion an employee has, the more likely it is that he will be subject to an exemption.

How can an employer guarantee that an employee both *has* and *is using* such discretion? One way would be to allow the low-level artists to take a “first stab” at production of the images with less oversight from supervisors. This, of course, does not mean that no direction and oversight is allowed, nor does it mean that the supervisor cannot revise or revamp the lower-level artist’s work after the first stab is complete. On the contrary, “discretion and independent judgment” is not

capable of being calculated with mathematical precision: an artist with a supervisor looking over his shoulder is much less likely to be found exempt as compared to an artist who gets general direction from a supervisor and creates the image with limited direct oversight.

(2) Document The Steps Taken

Simply giving lower-level employees more discretion is meaningless if employers do not have documentation to establish that the employees had and used such discretion. Why? Because the employer will bear the burden of proving that its employees had and exercised discretion regularly.

There are several documents which can be used to accomplish this task: (i) project memoranda which outline the work that each employee is to perform; (ii) periodic progress reports which describe what work has been accomplished and by whom (often, progress reports are simply e-mails from subordinate to supervisor or *vice versa*); (iii) disciplinary memoranda given to employees who exercise their discretion in a way that is problematic; and (iv) performance appraisals which highlight both good and bad uses of an employee’s discretion.

(3) Carefully Monitor The Hours Worked By Lower-Level Employees

EA probably had very little idea how many hours its lower-level artists were working and, accordingly, how much hot water it was in as a result. These kinds of mistakes are easily overcome. Supervisors should carefully monitor the hours worked by the employees that are the biggest overtime risks and should alert management when such employees regularly work over 40 hours a week (or 8 hours a day in California). Management too should take an active role reminding supervisors to monitor the hours worked by such artists.

Hard decisions may have to be made for low-level artists who cross the hours worked threshold. Employers may decide: (1) to limit their hours; (2) to increase the amount of discretion they have and use; (3) to make a decision to pay overtime; or (4) to do nothing and gamble that your position is correct. They may even decide to restructure pay packages to make the payment of overtime more affordable. But, letting low-level employees run amok with their hours is not a well-laid plan.

(4) Train, train, train

The real problem at EA was that management did not know what was happening in the trenches with its employees. To overcome that hurdle, EA should have trained its supervisors both as to: (1) the amount of discretion that the lower-level artists are to be given to

low-level artists to increase the chances that they fall within an overtime exemption; or (2) the hours they work, to guard against large amounts of overtime being worked. Both supervisors and low-level employees need to be trained on management's position as to when and under what circumstances overtime will be permitted and when it is discouraged. Likewise, supervisors need to be trained to keep management posted – regularly – when employees are working long hours.

(5) *Audit yourself*

Finally, employers should conduct regular audits to determine the risk that an exemption will not apply to a given employee. The audits should be performed by someone familiar with wage/hour law, normally an employment lawyer. The auditor will interview supervisors to determine the type of work being performed by borderline employees to enable an employer to make an educated decision when adjustments need to be made.

There is one other possibility for employers who are subject only to the FLSA and not a state law which contains additional protections. The 2004 amendments to the FLSA regulations include a new exemption for “highly compensated” employees. To satisfy this exemption, employees must have a “total annual compensation” of over \$100,000 and must perform at least one task of an exempt employee under any of the so-called “white collar” exemptions (*i.e.*, the executive, administrative and professional exemptions). The

compensation must be guaranteed (*i.e.*, discretionary bonuses are not included) and at least a portion of the compensation must be paid in the form of a regular salary.

Of course, if an employer is also subject to a state law that does not contain a similar exemption (*e.g.*, California, New York), this exemption will be of little help to the employer. However, for the employer who is only subject to the FLSA and who is willing to compensate employees at that rate, the “highly compensated” exemption may very well provide a safe harbor.

Conclusion

EA is the largest employer in the software entertainment industry and, as a result, probably was a target of plaintiffs' lawyers for years, even though it did not know it. Although EA did not handle the situation perfectly, it would hard to put too much blame on EA's shoulders given that its case was undoubtedly a test case for the entire industry.

However, the clarion call has been sounded in the industry. Software entertainment employers need to awaken to the fact that plaintiffs' lawyers are on the prowl and looking for the next big overtime class action in the industry.

In overtime law, the old adage holds true that an ounce of prevention is worth a pound of cure. By following the steps described above, employers can make real progress to guard against being the next EA.

INTERNATIONAL DEVELOPMENTS

Japanese P2P file-sharing service infringes music copyrights, Tokyo High Court affirms

by Takashi Nakazaki

The Tokyo High Court has upheld a decision of the Tokyo District Court ruling upon the conviction of MMO Japan (“MMO”) and its representative who were found liable for operating the copyright infringing “File Rogue” file sharing service, a decision that MMO has now accepted as final.

MMO provided the “File Rogue” file-sharing service to end-users residing in Japan. The File Rogue service is provided by a hybrid P2P type software. Its network consists of an indexing server provided by MMO and numerous clients which form a centralized system, functioning in the same way as Napster. Specifically, an end-user downloads the client software from MMO’s website and obtains a free member account with ads being displayed at that time. End-users may search the index provided by MMO’s server and exchange electronic files, including MP3s, directly with each other. MMO claimed it had no liability for any copyright infringements committed by its end-users, because it provided “notice and take down” procedures for copyright holders.

Nevertheless, the music industry sued MMO and its representative for copyright infringement, seeking damages and injunctions barring MMO from continuing to provide its file-sharing service. The Tokyo District Court granted an injunction and ordered reparations against MMO which then appealed the decision. The appeal ultimately failed, because the Tokyo High Court affirmed the decision.

The first part of the High Court’s opinion concerns copyright infringement of public transmissions. In contrast to U.S. copyright laws, Japanese copyright laws lack clear and detailed interpretations pertaining to contributory and vicarious infringements of copyright. In its March 15, 1985 “Club Cat Eye’s” case decision, the Supreme Court formulated the so-called “Karaoke Doctrine” for applying Japanese copyright law by extension to cases against those who aid and abet a copyright infringement. Like the Tokyo District Court before it, the Tokyo High Court treated MMO as an

infringing entity, and in its judgment, took into consideration: (1) the content and nature of the service, (2) the extent of control and management exerted by the service provider (MMO) over the acts (uploading) of copyright infringement and (3) whether the service provider made a profit from its copyright infringement business.

In its decision the court stated that “File Rogue is an application specialized in the exchange of electronic files and therefore induces the exchange of, among others, MP3 files, especially focusing on search function.” The court also stressed the fact that MMO was introduced as Napster’s alternative, and MMO’s representative favored File Rogue’s use in ways that were similar to that of Napster. The court noted that MMO could have checked the contents of the files being exchanged on the File Rogue network to partly exclude copyrighted MP3 files, because it has an indexing server. And the court observed that MMO made profits from selling advertising space and that the more MP3 files are exchanged on File Rogue network, the more MMO obtains end-users, and the more commercially valuable the service becomes.

Next, the court turned to a discussion about damages for such infringement. Under Japanese law, a claim for damages for copyright infringement requires negligence by a defendant. The court found that MMO could have easily predicted the illegal use of its service, because of its representative’s statements, as well as newspaper and magazine articles regarding it; and therefore MMO owed an enhanced duty to avoid copyright infringement committed by its end users. The court concluded that MMO and its representative failed to perform their duties, finding them negligent, because the notice and take down procedures provided for copyright holders and warning statements for end-users are ineffective. Regarding calculation of the amount of damages, the court stated that damages should be calculated based not on the number of copyrighted tunes but on the number of copyrighted MP3 files.

In comparison to the *Grokster* opinion of the U.S. Supreme Court, the theories behind the imposition of copyright infringement liability to the service provider are different in Japan than in the U.S. Moreover, *Grokster* lacked control and management over end users’

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uploading as it relates to copyright infringement, unlike File Rogue. However, the factors the Japanese and U.S. courts paid attention to are similar. In *Grokster* the Supreme Court concluded that (1) Grokster “showed itself to be aiming to satisfy a known source of demand for copyright infringement” from “internal documents,” “software’s function” etc., (2) Grokster never “attempted to develop” “filtering tools or other tools to diminish the infringing activity” and (3) Grokster earned “money from selling advertising space” and “the extent of the software’s use determines the gain.”

In another Japanese case involving file sharing software, the programmer of “Winy,” a decentralized file sharing software similar to Grokster, is on criminal trial for aiding copyright infringement. That case has

been pending before the Kyoto District Court since May 2004. Winy, unlike MMO using the centralized system, seems to lack the control and management over end users’ uploading related to the infringement of copyright and probably lacks the ability to earn a profit from the business. It is very difficult to predict whether the Winy programmer will be convicted. However, the Kyoto District Court might be stimulated by the *Grokster* opinion and, to some extent, may stress the programmer’s intent, should it find him guilty.

The music industry was represented by Anderson Mori & Tomotsune and other attorneys.

MMO v. Music Industry, Tokyo High Court Decision 2004 (Ne) Nos. 405 & 446 (March 31, 2005)

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RECENT CASES

Sony Music did not infringe copyrights of co-author of songs by The Isley Brothers, because company was licensed by other co-authors

Sony Music did not infringe Christopher Jasper's copyright in music performed by The Isley Brothers, even if Jasper was not a party to the license The Isley Brothers granted to CBS (Sony's predecessor in interest), because other co-authors agreed to the license, a federal District Court has held.

In 1973, Christopher Jasper joined the popular R&B music group The Isley Brothers. Jasper is the younger brother-in-law of the Isley Brothers, who are real brothers. Jasper, the Isley brother-in law, and five real Isley brothers are co-authors of the songs written by group between 1973 and 1983.

In 1973, CBS and the older Isley brothers entered into a contract. CBS agreed to distribute The Isley Brothers music and pay royalties to T-Neck Records, a record label formed by the older Isleys back in 1969. Between 1980 and 1981, Jasper was added to the agreement between CBS and The Isley Brothers. In 1988 Sony acquired CBS Records, thus becoming the successor in interest of the agreements between CBS and The Isley Brothers.

Somehow, the Isley Brothers went bankrupt in 1984. The bankruptcy proceedings resulted in Jasper's release of copyright claims against T-Neck Records in exchange for \$175,000. Ten years later, Jasper lost a suit against T-Neck for unpaid royalties because he relinquished his right to receive royalties as a part of the 1991 settlement.

After Jasper lost his suit against T-Neck, he sued Sony for copyright infringement, alleging that Sony unlawfully distributed The Isley Brothers' music that Jasper co-authored. Jasper contended that he was not a party to the 1973 agreement between CBS and The Isley Brothers.

In response to Sony's motion to dismiss for failure to state a claim, federal District Judge Colleen McMahon held that Sony did not infringe Jasper's copyrights in The Isley Brothers music as a matter of law. Judge McMahon noted that copyright law prohibits a licensor from suing a licensee for copyright infringement. The judge ruled that even if Jasper was not a party to the CBS/Isley agreement, Jasper's copyright infringement claim is barred because under copyright law the older Isley brothers, as co-authors, could grant a license to CBS to exploit the work without Jasper's consent.

As a result, Judge McMahon granted Sony's motion to dismiss with prejudice and awarded attorney costs to Sony.

Sony was represented by Cynthia S. Arato of Manatt Phelps & Phillips in New York City. Christopher Jasper was represented by Margaret C. Jasper in South Salem, NY. (MAR)

Jasper v. Sony Music Entertainment, Inc., 378 F.Supp.2d 344, 2005 U.S. Dist. LEXIS 13656 (S.D.N.Y. 2005)

Agreement between Polygram and Warner to fix prices and restrict advertising for "Three Tenors" albums and videos violated FTC Act, Court of Appeals affirms

An FTC ruling that the 1998 agreement between Polygram and Warner Bros. to fix the prices of, and restrict advertising for, "Three Tenors" albums was an unfair method of competition has been upheld by a federal Court of Appeals. Both companies are prohibited from entering into similar moratoriums in the future.

The Three Tenors – opera singers Luciano Pavarotti, Placido Domingo and Jose Carreras – performed together during the 1990 and 1994 World Cup soccer finals. Polygram owns the video and album rights to the 1990 concert, while Warner owns the rights to the 1994 concert.

The Three Tenors performed again at the 1998 World Cup finals. Before the show, Warner and Polygram agreed to split the domestic and foreign distribution rights of the 1998 album and video. In addition, the two companies entered into a separate "moratorium" agreement in which Polygram promised not to discount or advertise the 1990 album and video, and Warner agreed not to discount or advertise the 1994 album and video, for 10 weeks before and after their release of the 1998 album and video.

In 2001, the FTC initiated proceedings against both Warner and Polygram claiming that the moratorium was an unfair method of competition and thus violated the FTC Act. Warner conceded immediately, and consented to refrain from engaging in similar moratoriums in the future (ELR 23:5:6). Polygram, however, chose to fight the charge before an Administrative Law Judge. The judge ruled that Polygram violated the FTC Act and, like Warner, must refrain from making similar agreements in

the future (*ELR* 24:4:6). Polygram then appealed to the full FTC but the holding was affirmed (*ELR* 25:4:8).

Polygram appealed again, this time to the Court of Appeals, arguing, among other things, that the FTC failed to provide adequate proof that the moratorium caused an actual anticompetitive effect on consumers.

Writing for the appeals court, Judge Douglas Ginsburg rejected Polygram's arguments. The judge reasoned that in unfair competition cases, it is only necessary for the FTC to show that the disputed conduct will "likely" harm consumers. Then, it is the defendant's role to provide a plausible competitive justification. Judge Ginsburg agreed with the FTC's finding of a likely harm to consumers, and he concluded that Polygram's rebuttal was unpersuasive and thus failed to meet the burden required to refute the FTC's finding.

The appellate court therefore affirmed the FTC's findings and ruled against Polygram.

Polygram was represented by Bradley S. Phillips of Munger Tolles & Olson in Los Angeles. The Federal Trade Commission was represented by John F. Daly, the FTC's Deputy General Counsel. (*VG*)

Polygram Holding, Inc. v. Federal Trade Commission, 416 F.3d 29, 2005 U.S.App.LEXIS 14931 (D.C. Cir. 2005)

New York Court of Appeals is asked to decide whether Lynyrd Skynyrd's Ed King could ratify fee agreement with his former lawyer, if fee agreement was "unconscionable" and induced by fraud

Recording artist Ed King of Lynyrd Skynyrd (famous for "Sweet Home Alabama") hired attorney Lawrence Fox in 1975 to sue MCA Records for allegedly unpaid royalties. King had no money at the time, so he signed a contingency fee agreement that "would give Fox one-third of all of King's future royalties." King claims that he thought the fee agreement would only apply to artist's royalties collected from the lawsuit. But after MCA settled the lawsuit, Fox began collecting one-third of all of King's royalties.

In 1986, King asked Fox about the fee arrangement, and Fox was alleged to have given King the impression that a court order controlled the matter and therefore King couldn't change the agreement. Fox continued to represent King until 1991.

Then, in 1995, a clerk at MCA contacted King to update his mailing information. After updating his information, King began receiving all of his artist's royalties directly. Fox soon called King demanding "his" share of King's royalties. Out of fear that he had violated a "court order of some kind," King cut off all communication with Fox, and contacted another

attorney, John Shackelford, for advice. Shackelford told King that Fox's fee agreement was illegal.

Soon afterwards, King filed suit against Fox claiming breach of fiduciary duty, unjust enrichment, undue influence, conversion, and attorney misconduct. King also claimed the original contingency agreement with Fox was unconscionable.

Fox answered with a counterclaim, seeking an accounting for a share of artist's royalties that King had been receiving directly from MCA since 1995.

The trial court dismissed King's claims on summary judgment, because King had ratified the contingency agreement by accepting its benefits until 1995. Fox's counterclaim for an accounting then went to the jury which found the agreement to be "unconscionable."

Though King defeated Fox's counterclaim, King appealed the dismissal of his own claims against Fox, arguing that he could not have ratified the fee agreement because it was induced by fraud. King also argued that because the jury found the agreement to be "unconscionable," it should not be enforced. (Fox did not appeal the adverse judgment on his counterclaim.)

Judge Michael Mukasey, writing on behalf of the federal Court of Appeals, found that New York law was unclear as to whether an attorney's fee agreement could be ratified during the period of representation. He noted that attorney-client fee agreements were not issues of simple contract law and that attorney's fee agreements are often held to higher standards than usual contracts.

Therefore, the federal Court of Appeals certified three questions to the New York state Court of Appeals. First, is it possible to ratify a fee agreement during the course of representation? Second, is it possible to ratify a fee agreement if during the course of representation, the client was fraudulently induced to affirm the agreement? Finally, is it possible to ratify an unconscionable fee agreement?

King was represented by Fred R. Profeta, Jr., of Profeta & Eisenstein in New York City. Lawrence Fox was represented by Richard M. Maltz in New York City. (*HK*)

King v. Fox, 418 F.3d 121, 2005 U.S.App.LEXIS 15846 (2nd Cir. 2005)

Infinity Broadcasting defeats promissory estoppel claim by DJ, because emails were inadequate to create five-year employment contract

Emails between a DJ and the Program Director of an Infinity owned radio station did not create an employment contract through promissory estoppel, because the alleged contract did not satisfy the statute of frauds, a federal Court of Appeals has affirmed.

Cliff Dumas was a DJ at a Canadian country music radio station. After gaining considerable popularity in Canada, he decided it was time to move to the big leagues, the USA. Dumas began negotiations with the Program Director of US-99, a Chicago radio station owned by Infinity Broadcasting Corporation. But the two never reached an agreement and Dumas went to work for an Arizona radio station.

Two years later, the Program Director of US-99 contacted Dumas and the two again discussed Dumas' possible move to Chicago. They sent emails back and forth, creating a rough sketch of the agreement. Both sides agreed upon a contract term of five years.

In the midst of these negotiations, Dumas notified his employer, the Arizona radio station, that he was terminating their employment agreement. However, the executives at Infinity never approved the hiring of Dumas, and Dumas was forced to go elsewhere.

Dumas then sued Infinity, relying on the doctrine of "promissory estoppel" as the basis for his alleged employment agreement with the company.

The trial court granted Infinity's motion for summary judgment, finding that the emails exchanged by Dumas and the Program Director did not satisfy the Illinois statute of frauds.

Dumas appealed, but without success. Judge John Coffey, writing on the behalf of the Court of Appeals, noted that a five-year employment contract must be in writing in order to satisfy the statute of frauds, even if the underlying basis of the contract is promissory estoppel. Judge Coffey held that the emails were inadequate proof of a writing, and thus did not satisfy the statute of frauds.

Dumas was represented by Clair Dickinson in Akron. Infinity Broadcasting was represented by Alyssa M. Campbell of Williams Montgomery & John in Chicago. (HK)

Dumas v. Infinity Broadcasting Corp., 416 F.3d 671, 2005 U.S.App.LEXIS 15748 (7th Cir. 2005)

Record companies may proceed with secondary liability copyright claims against investors in Napster, and investor may proceed with antitrust counterclaims against record companies, federal District Court rules

Napster itself went bankrupt (and has been reborn as a licensed music distribution company). But copyright infringement claims against investors in Napster, and an investor's antitrust counterclaims, live on in federal court.

In the late 1990s, Napster created a peer-to-peer Internet file-sharing network that allowed users to upload

and download music files without permission from record labels, composers, and music publishers. It was estimated that Napster users downloaded 15 billion files between September 2000 and May 2001. During that time Hummer Winblad Venture Partners and Bertelsmann AG made heavy investments in Napster.

Angered by Napster users' blatant infringement, the record companies brought claims of contributory and vicarious copyright infringement against Napster. However, shortly after an appellate court ordered an injunction against Napster, the company filed for bankruptcy. As a result, the record companies sued Hummer and Bertelsmann by virtue of their investments in Napster.

Trying to avoid the record companies' claims, Hummer and Bertelsmann filed a motion for summary judgment. In addition, Hummer filed a counterclaim alleging that the record companies conspired to exclude Napster and other independent music distributors from the online music distribution market.

Federal District Judge Marilyn Patel granted part of Hummer and Bertelsmann's motion. She held that Napster did not commit copyright infringement when it created an indexing system because it was not transferred to anyone. Judge Patel explained that the record companies' claims were doomed because there was no proof of the actual dissemination of the copyrighted works and no proof of an offer to distribute the works. The infringing works never resided on Napster's system. However, Judge Patel denied Hummer's motion for summary judgment regarding the record companies' claims for secondary copyright infringement as a result of the uploading and downloading of music files via the Napster network. Thus, Hummer and Bertelsmann must go to trial on these claims.

In response to Hummer and Bertelsmann's counterclaims, the record companies filed a motion to dismiss. Judge Patel held that the counterclaims could go to trial because as a heavy investor in Napster, Hummer had antitrust standing. Judge Patel explained that a unity of ownership existed between Hummer and Napster such that any injury to Napster was an injury to Hummer.

Capitol Records was represented by Peter Simmons of Fried Frank Harris Shriver & Jacobson in New York. Hummer was represented by Michael Page of Kecker & Van Nest in San Francisco. (KH)

In re Napster, Inc. Copyright Litigation, 377 F.Supp.2d 796, 2005 U.S.Dist.LEXIS 11500 (N.D.Cal. 2005); *In re Napster, Inc. Copyright Litigation*, 354 F.Supp.2d 1113, 2005 U.S.Dist.LEXIS 4914 (N.D.Cal. 2005)

FCC did not have authority to adopt Broadcast Flag Order, requiring digital TVs to recognize and give effect to broadcast flags, federal Court of Appeals decides

The FCC's Broadcast Flag Order, which required digital television receivers manufactured after July 1, 2005 to recognize and give effect to broadcast flags, was outside the FCC's scope of statutory authority, and therefore the federal Court of Appeals in Washington D.C. vacated the order.

In 2003, the FCC adopted broadcast flag regulations that required devices capable of receiving digital television broadcasts, manufactured after July 1, 2005, to recognize broadcast flags (*ELR* 25:7:4). The flag, a digital code inserted into digital television broadcast stream, prevents digital receivers, and therefore consumers, from redistributing the program after a broadcast transmission is complete.

In 2002, before it adopted the order, the FCC sought comments on whether it could exercise jurisdiction over TV receivers. In response to the FCC's inquiry, content owners and distributors of broadcast television argued that the FCC was authorized to regulate receivers under its "ancillary" jurisdiction, while consumer groups argued that the FCC lacked jurisdiction. The FCC nevertheless adopted the order but failed to cite any specific statutory grant of authority to regulate consumers' use of television receivers. Instead, the FCC relied solely on its ancillary jurisdiction under Title I of the Communications Act of 1934.

The American Library Association, which represents libraries and consumers, filed a petition for review challenging the order. The Association argued that the FCC lacked statutory authority to promulgate the broadcast flag regulations.

In an opinion by Judge Harry Edwards, the Court of Appeals held that the FCC did not have statutory authority to impose the broadcast flag order. The court disagreed with the FCC's contention that it had ancillary jurisdiction to regulate TV receivers.

Title I of the Communications Act states that the FCC can enforce provisions of the Act relating to all interstate communication by wire or radio. The court noted that the FCC has ancillary jurisdiction if (1) the FCC's general jurisdictional grant under Title I covers the subject of the regulations and (2) the regulations are reasonably ancillary to the FCC's effective performance of its statutorily mandated responsibilities. The court found that the FCC had general jurisdiction under Title I to regulate devices that can receive television broadcasts, but also noted that the FCC had never been permitted to assert general jurisdiction to regulate devices not engaged in wire or radio communications.

Furthermore, the court noted that digital television broadcasts constitute a wire or radio communication. The

court concluded that because the order did not impose regulations on digital television receivers until *after* the broadcasts occurred, the order did not regulate the actual transmission of the digital television broadcast. Instead, the flag's *only* effect was to limit the receiver's ability to redistribute the broadcast after transmission is complete. Thus, the FCC exceeded its general jurisdictional grant of authority under Title I.

The Court of Appeals therefore reversed and vacated the FCC's order.

The American Library Association was represented by Pantelis Michalopoulos of Steptoe & Johnson in Washington, D.C. The FCC was represented by Jacob Lewis of the Justice Department in Washington, D.C. (*JHI*)

American Library Association v. Federal Communications Commissions, 406 F.3d 689, 2005 U.S.App.LEXIS 7847 (D.C. Cir. 2005)

Australian authors of treatment for "The Minotaur" were not barred from filing copyright infringement lawsuit against "Terminator II" producer James Cameron, even though Minotaur screenwriter lost earlier infringement case against "Terminator II" producers

The authors of a film treatment for the movie "The Minotaur" may re-litigate copyright infringement issues that were already decided in a prior lawsuit, because privity did not exist between them and the screenwriter they once hired to write and shop a screenplay based on the film treatment, a federal Court of Appeals has held.

Australia's Folia and Constantinos Kourtis got an Australian copyright in a film treatment entitled "The Minotaur" about a half-man, half-bull who can transform into anything. Then the Kourtises hired author William Green to write a screenplay based on the Minotaur treatment. Green also began to shop the screenplay in Hollywood. Jeffrey Berg of International Creative Management (ICM) got ahold of the screenplay and passed it on to filmmaker James Cameron who contacted the Kourtises about the film but never agreed to produce it. Later, Cameron produced "Terminator II," which featured a character that transformed itself too.

William Green, the author of the Minotaur screenplay, filed a copyright infringement lawsuit against Cameron. The Kourtises, the authors of the Minotaur treatment, did not intervene in that lawsuit, which was good for them because Green lost (*ELR* 17:10:5 and 18:12:19). The Kourtises did, however, successfully sue Green in an Australian court which

ruled that the Kourtises own the copyright in *The Minotaur*, not Green.

The Kourtises then sued Cameron, Jeffrey Berg and ICM for copyright infringement, in federal court in the United States.

In response to Cameron's motion to dismiss, the trial court concluded that the Kourtises were collaterally estopped from re-litigating the issue of copyright infringement of *The Minotaur* because William Green already lost a *Minotaur/Terminator II* copyright infringement lawsuit to Cameron.

The Kourtises appealed, successfully. In an opinion by Judge Diarmuid F. O'Scannlain, the appellate court held that the Kourtises may pursue their copyright claim, because they were not adequately represented in the Green litigation. Judge O'Scannlain explained that in order to preclude the Kourtises' claim, they had to be in privity with Green. Privity requires both unity of interest and adequate representation in the prior litigation. Although the Kourtises and Green shared a unity of interest in proving that Cameron infringed *The Minotaur*, Judge O'Scannlain ruled that the Kourtises were not adequately represented in the prior litigation, because they did not tell Green to file the lawsuit and they did not stand to share in the judgment that Green stood to win.

The Court of Appeals therefore reversed and remanded the case to the trial court to litigate the copyright infringement issues. But the appellate court affirmed the trial court's dismissal of the Kourtises' contract and breach of confidence claims, because those were barred by the statute of limitations.

The Kourtises were represented by Patricia J. Barry in Los Angeles. James Cameron was represented by Marisa G. Westervelt of Christensen Miller Fink Jacobs Glaser Weil & Shapiro and by Charles N. Shephard of Greenberg Glusker Fields Claman Machtlinger & Kinsella in Los Angeles. (MAR)

Kourtis v. Cameron, 419 F.3d 989, 2005 U.S.App.LEXIS 17146 (9th Cir. 2005)

Former Alabama football coach Mike Price denied access to *Sports Illustrated's* confidential sources in defamation lawsuit

Former Alabama football coach Mike Price has been denied access to *Sports Illustrated's* confidential sources for a story the magazine published concerning Price's promiscuous off-the-field activities. A federal Court of Appeals has vacated an order compelling *Sports Illustrated* to reveal its confidential source, because – the appeals court ruled – the magazine has a First Amendment right not to do so.

In spring of 2003, Mike Price was head coach of the University of Alabama's football team. While in Pensacola, Price, who is married, allegedly visited a strip club twice in the same day. During those visits Price allegedly bought several hundred dollars in lap dances, touched the dancers inappropriately and invited two dancers back to his hotel room and engaged in sexual intercourse with them.

A *Sports Illustrated* writer heard about this incident and put together a story for the magazine's then upcoming May 8, 2003 issue. When the writer called Price for comment, the coach said the allegations were "completely not true." *Sports Illustrated* published the story and Price was subsequently embarrassed and fired.

Price sued the writer and Time, Inc., *Sports Illustrated's* owner, for libel, slander and outrageous conduct. Price claimed that *Sports Illustrated's* article was "false and defamatory" and lacked verified factual support. Basically, Price claimed that *Sports Illustrated* "maliciously defamed him either by lying about having a confidential source, or by relying exclusively on a confidential source that they knew, or should have known, to be untrustworthy."

During discovery, Price served *Sports Illustrated* and the writer with interrogatories seeking the identity of the confidential sources used for the story. *Sports Illustrated* resisted, but the District Court concluded that the Alabama shield law did not protect *Sports Illustrated* because the magazine was not considered a "newspaper" for purposes of the statute. Further, the District Court found that Price had made a sufficient showing to overcome the First Amendment qualified reporter's privilege that *Sports Illustrated* asserted.

Sports Illustrated appealed the District Court's order granting Price's motion to compel the magazine to disclose its sources.

Writing for the Court of Appeals, Judge Edward Carnes agreed that *Sports Illustrated* is not a newspaper and therefore not protected by the Alabama shield statute. The finding was based on the dictionary meaning of the word "newspaper" and the common understanding of the publishing industry regarding the distinction between newspapers and magazines.

However, Judge Carnes disagreed with the District Court's First Amendment analysis. Judge Carnes did not believe that Price had already made "reasonable efforts to discover the information from alternative sources," because Price had not deposed enough people to qualify as having made a reasonable attempt to obtain the confidential source.

As a result, even though the appellate court concluded that *Sports Illustrated* was not a newspaper for purposes of Alabama's shield law, it concluded that Price had not exhausted all reasonable efforts to discover the confidential source through other means, and therefore *Sports Illustrated* had a First Amendment right not to disclose its sources. Thus, the order to compel was

vacated and the case was remanded for further proceedings.

Time, Inc., was represented by Scott Burnett Smith of Smith Bradley Arant Rose & White in Huntsville, Alabama. Mike Price was represented by Stephen D. Heninger of Heninger Burge Vargo & Davis in Birmingham, Alabama. (*ANC*)

Price v. Time, Inc., 416 F.3d 1327, 2005 U.S.App.LEXIS 14331 (11th Cir. 2005)

Washington Redskins may have to litigate validity of “Redskins” trademarks after all, because clock for asserting “laches” against petition to cancel marks did not run from the date mark was first registered because one Native American petitioner was only one year old at that time

The Washington Redskins has had federal trademark registration since 1967 for use of the term “redskin” in connection with goods and services related to the professional football team. Native Americans are offended by the term “redskin” because they contend it refers to Native Americans in a derogatory manner.

Seven Native Americans petitioned the Trademark Trials and Appeals Board (TTAB) for cancellation of the “redskin” trademarks, because Section 1052(a) of the Lanham Trademark Act denies registration to marks that “disparage . . . persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt or disrepute.”

The TTAB ruled that the term “redskin” disparaged Native Americans and cancelled the trademark registrations (*ELR* 21:1:10). The football team then brought suit in federal District Court seeking a reversal of that ruling. After discovery, the trial court granted summary judgment to the football team on two grounds: laches barred the Native Americans’ petition and the TTAB’s ruling on disparagement was not supported by substantial evidence (*ELR* 25:6:8).

The Native Americans appealed, with some success. In a Per Curiam opinion, the appellate court held that “laches” is an available defense to a petition to cancel a federal trademark. But the court went on to rule that laches could not be asserted against one Native American, Mateo Romero, who was only one year old at the time the football team first registered its mark. The court explained the laches *only* runs from the time a party has reached the age of majority.

The Court of Appeals therefore retained jurisdiction over the case and remanded the record to the trial court to evaluate whether laches bars Mateo Romero’s claim

The Native Americans were represented by Philip J. Mause. The Washington Redskins were represented by Robert L. Raskopf of White Case in New York. (*MAR*)

Pro-Football, Inc., v. Harjo, 415 F.3d 44, 2005 U.S.App.LEXIS 14312 (D.C. Cir. 2005)

NHL’s New Orleans Brass must pay former player Jeff Lazaro supplemental earnings benefits after he suffered career-ending sports injury

An employee’s supplemental earnings benefits are determined by “clear and convincing evidence” of injury – so one doctor’s sole opinion is not determinative – the Louisiana Court of Appeal has ruled, in a case brought by former NHL player Jeff Lazaro.

Lazaro played professional hockey for the New Orleans Brass for five years. In March of 2001 he injured his knee while playing hockey. After undergoing surgery and eight months of rehabilitation, Lazaro was released by the team doctor to resume playing hockey.

Lazaro then reinjured his knee in January of 2002. After receiving treatment, the team doctor cleared him to play in March 2002. However, after one attempt at skating, Lazaro was unable to play hockey. After undergoing another surgery, the team doctor found Lazaro was disabled from playing professional hockey. The injury ultimately ended his playing career.

After finding out about Lazaro’s injury, the Brass suggested that he retire. Lazaro then sought supplemental earnings benefits from the team for his injury. The Brass refused to pay him, however, because the team doctor had cleared Lazaro’s injury in March 2002.

Angered by the Brass’ callous indifference, Lazaro brought his claim before the Louisiana Office of Workers’ Compensation seeking benefits from January 2002. A Workers’ Compensation Judge found that Lazaro was permanently disabled from February 2003, and ordered the Brass to pay supplemental earnings benefits from that date.

Undeterred by the Judge’s ruling, the Brass appealed.

In an opinion by Judge Joan Armstrong, the appellate court held that evidence demonstrated Lazaro was entitled to benefits, despite being cleared by the team doctor who said he was no longer injured. Judge Armstrong explained that Lazaro’s own testimony provided “sufficient clear and convincing evidence that he could not perform his duties as a professional hockey player without substantial pain.”

Judge Armstrong noted that Lazaro was injured in January of 2002, was treated and released by the team doctor to resume playing hockey in March of 2002, but failed in his attempt to return. Thus, Judge Armstrong

concluded that Lazaro was unable to play hockey after January 2002, and was entitled to supplemental earnings benefits from that date.

As a result, Judge Armstrong amended the trial court's judgment to provide that Lazaro be paid those benefits from January 2002, rather than February 2003, and affirmed the judgment in all other respects.

Lazaro was represented by Robert Hackett in New Orleans. The New Orleans Brass was represented by John Rabalais of Rabalais Unland & Lorio in Covington, Louisiana. (KH)

Lazaro v. New Orleans Brass, 903 So.2d 538, 2005 La.App.LEXIS 1552 (La.App. 2005)

NFL Players Retirement Plan does not have to pay benefits to former player Brent Boyd, because his disabilities were not caused by football

A single medical opinion may provide substantial evidence upon which a plan administrator may rely in deciding whether a football player's disabilities are a result of football activities, a federal Court of Appeals has ruled, in a case brought by Brent Boyd.

Boyd played NFL football for the Minnesota Vikings from 1980 to 1986. He retired from football shortly before the 1987 season due to a myriad of injuries. After his retirement, Boyd held various jobs until 1999, when he could no longer work. Since he couldn't work, Boyd applied to the NFL Players Retirement Plan for Football Degenerative disability benefits. He claimed that he suffered brain problems as a result of head trauma he sustained during a preseason game in 1980.

After reviewing the medical opinions of various doctors, the Plan's Disability Board denied Boyd's claim for disability benefits. Relying on the opinion of a single doctor – a specialist – the Board concluded that Boyd's injuries did not arise out of football activities.

Boyd filed suit against the Board. But before Boyd got to trial, the trial court granted the Board's motion for summary judgment. Boyd immediately appealed.

In an opinion by Judge Robert Beezer, the appellate court held the Board did not abuse its discretion when it denied Boyd's claim, because based on medical evidence from one examining physician who was a specialist, the Board concluded that Boyd's injuries were not related to football activities.

Judge Beezer explained that although other medical experts expressed the opinion that Boyd's disabilities were football related, their opinions were incomplete. Thus, it was appropriate for the Board to rely on a single medical opinion from a specialist that provided an extensive evaluation and report.

As a result, the appellate court affirmed the trial court's decision granting summary judgment to the Board.

Boyd was represented by Lawrence Rohlfling in Santa Fe Springs, California. The NFL Players Retirement Plan was represented by John McAllister of Groom Law Group in Washington, D.C. (KH)

Boyd v. Bert Bell/Pete Rozelle NFL Players Retirement Plan, 410 F.3d 1173, 2005 U.S.App.LEXIS 11057 (9th Cir. 2005)

Penske race car driver Helio Castroneves is not liable for terminating his management agreement with Fittipaldi USA, Florida court of appeals affirms

In 1997, Fittipaldi USA, Inc., agreed to provide management services for race car driver Helio Castroneves. The agreement provided that either could terminate it for reasonable cause. Fittipaldi got Castroneves a contract with Hogan Racing for the 1999 racing season. Simultaneously, Fittipaldi agreed that if it did not raise \$1 million in corporate sponsorship for Hogan by March 15, 1999, Hogan would not have to pay Castroneves for his racing services. Fittipaldi failed to raise the money as promised; Castroneves never got paid; and Hogan Racing shut down.

Castroneves was then offered and accepted a racing contract with Penske Racing, but Fittipaldi didn't represent him in making that deal. Rather, Castroneves terminated the Fittipaldi agreement after he met attorney Alan Miller, and it was Miller who later got Castroneves a contract with Penske Racing.

Fittipaldi sued Castroneves for breach of contract, but lost. The jury returned a verdict in favor of Castroneves.

Fittipaldi appealed, unsuccessfully. In an opinion by Judge Angel Cortinas, the Florida Court of Appeal held that Alan Miller had testified as an "expert" witness concerning the poor quality of the Fittipaldi agreements, because his opinion of those contracts depended on his "legal experience and Specialized Training." Although the trial court should have sustained Fittipaldi's objection to Miller's expert testimony, since Castroneves had not designated Alan Miller as an expert witness, the appellate court explained that reversal of a jury verdict is proper if the undisclosed expert testimony goes to the heart of the litigation.

Here, the appellate court explained, Castroneves' claim that he properly terminated the Fittipaldi agreement did not depend on whether Fittipaldi's agreements were poor in quality. Instead, Castroneves' claims were based on evidence that Fittipaldi didn't satisfy the \$1 million guaranty, and on Fittipaldi's

“lackluster efforts on Castroneves’ behalf.” Thus Miller’s expert testimony was not unduly prejudicial to Fittipaldi’s claim, and a reversal of the jury verdict would be inappropriate.

The Court of Appeal of Florida therefore affirmed the judgment.

Fittipaldi was represented by Alvin B. Davis and Digna B. French of Steel Hector & Davis in Miami. Castroneves was represented by Lauri Waldman Ross in Miami. (MAR)

Fittipaldi USA, Inc., v. Castroneves, 905 So.2d 182, 2005 Fla.App.LEXIS 4348 (Fla.App. 2005)

Libel suit filed in Texas against German tabloids by Swiss Ambassador to Germany and wife was properly dismissed because tabloids were outside court’s jurisdiction

A libel suit filed by the former Swiss Ambassador to Germany and his wife against two German tabloids was properly dismissed by a federal judge in Texas, a Court of Appeals has affirmed. The trial court said it lacked personal jurisdiction (essentially, legal power) over the tabloids in Texas. The couple had asked the court to allow further inquiry into the issue of jurisdiction, but their request was denied because they didn’t explain what this search would yield or how it could change the court’s decision.

Thomas Borer, once an Ambassador to Germany, married Shawne Fielding who is a model and former “Miss Texas.” One German tabloid created a national frenzy when it published an article accusing Borer of having an affair with a European model. Just three months later, however, the model admitted that she fabricated the story. The tabloid soon ran a front-page retraction but the damage had been done.

After the initial story broke but before the retraction was made, the German periodicals *Bunte* and *Stern* also ran several articles about the alleged affair. Although *Bunte* and *Stern* are distributed almost exclusively in Germany, roughly 70 copies of each magazine are distributed every week in Texas, where Fielding still resides.

Fielding and Borer filed a lawsuit against Hubert Burda Media, Inc., and other companies that own the tabloids. The couple filed the suit in Texas alleging libel, intentional infliction of emotional distress, tortious interference with prospective business relations and civil conspiracy claims. Fielding and Borer claimed their reputations were injured among family, friends and acquaintances in Texas.

The trial court found that it did not have personal jurisdiction in Texas over the magazine companies. Fielding and Borer requested further discovery into the

issue, but the court denied this request and dismissed the case.

Fielding and Borer appealed, claiming that the trial court decision to deny their request for further discovery was “arbitrary and clearly unreasonable.”

The couple hoped to find a subsidiary that was in fact subject to jurisdiction in Texas. The court could then extend this jurisdiction to the company as a whole. Speaking for the Court of Appeals, Judge Edith Clement said their argument required a multi-factor analysis, but Fielding and Borer did not provide any relevant evidence for the court to apply.

There was no evidence at all involving *Bunte*. As for *Stern*, Fielding and Borer presented evidence of only one subsidiary company that is an agent in Texas. This contact, however, has no “substantial, continuous, and systematic contacts” with the state and so was utterly useless here. Judge Clement noted that relevant evidence may exist, but Fielding and Borer failed to argue in the original suit what they would find if they kept looking or how that evidence would affect the court’s ruling on jurisdiction. As a result, they could not contest the decision now.

The appellate court therefore affirmed the trial court’s decision to dismiss the case.

Fielding was represented by Kent C. Krause of Speiser Krause in Dallas. Borer was represented by Krause and by Larry M. Lesh in Dallas. Hubert Burda Media was represented by Thomas S. Leatherbury of Vinson & Elkins in Dallas. (VG)

Fielding v. Hubert Burda Media, Inc., 415 F.3d 419, 2005 U.S.App.LEXIS 13111 (5th Cir. 2005)

Ban on television cameras in courtrooms is constitutional, New York Court of Appeals rules in case brought by Court TV

A New York statute that bans television coverage of courtroom proceedings does not violate the First Amendment of the U.S. Constitution, or Article I Section 8 of the New York State Constitution, the New York Court of Appeals has ruled.

In 1987, the New York Legislature enacted Judiciary Law section 218, which permitted the state’s Chief Judge to authorize an experimental program that gave presiding trial judges the discretion to permit audio-visual coverage of civil and criminal proceedings, including trials. The law, however, contained a sunset clause which provided the statute would automatically expire if it was not affirmatively extended. In 1997, the Legislature allowed Judiciary Law section 218 to “sunset,” and thus the ban on televised trials resumed pursuant to Civil Rights Law section 52. Court TV filed a complaint against the state of New York seeking a

declaratory judgment that Civil Rights Law section 52's ban on televised trials was unconstitutional.

Court TV claimed that Civil Rights Law section 52 unconstitutionally denied it the right of access to trials guaranteed by the First Amendment of the U.S. Constitution and by Article I Section 8 of the New York State Constitution.

The trial court granted summary judgment to the State of New York. It ruled that "[t]he record . . . is consistent with New York's statutory scheme which guarantees public trials, but gives primacy to fair trial rights." Furthermore, the trial court held that a state rule that expanded the media's rights to include the right to broadcast court proceedings was one to be adopted by the legislature and not the court. The Appellate Division affirmed the trial court's ruling.

Court TV appealed, but without success.

In an opinion by Judge G.B. Smith, the New York Court of Appeals held that Civil Rights Law section 52 is constitutional.

The court noted that although the First Amendment guarantees the press a right of access to trial proceedings, the press does not have any special right of access, but rather has the same right of access as the public. Furthermore, the court concluded that Civil Rights Law section 52 does not prevent the press from attending trials and reporting on the proceedings. Instead, the restriction is on the means that can be used to collect the newsworthy information. Since it only prevents cameras in the courtroom, it is not a violation of the press' constitutional right under the First Amendment.

The court reasoned that the presence of cameras in the courtroom raised many concerns including prejudicial impact on jurors, impact of truthfulness of witnesses, the judge's responsibility to assure a fair trial, and the impact on the defendant.

The court also concluded that the New York Constitution gives the same right to the press to attend trials that the U.S. Constitution offers. Finally, the court noted that the decision whether to permit cameras in the courtroom is a legislative decision, and not a court decision.

Court TV was represented by David Boies of Boies Schiller & Flexner in Armonk, New York. The State of New York was represented by Caitlin Halligan of the State of New York Attorney General's Office in New York. (JHI)

Courtroom Television Network v. State of New York, 800 N.Y.S.2d 522, 2005 N.Y. LEXIS 1260 (Ct.App. 2005)

NBCUniversal.com must defend cybersquatting suit brought by NBC Universal

NBCUniversal.com, owned by Korean citizen Junak Kwon, must defend a cybersquatting suit brought by NBC Universal, because the fact that NBC Universal had earlier submitted the dispute to an arbitral panel of the World Intellectual Property Organization (WIPO) did not preclude it from filing a Lanham Act suit, a federal District Court has ruled.

Junak Kwon purchased and registered the domain name NBCUniversal.com in his home country of Korea. Back in the United States, NBC Universal sought to gain control of the domain name to prevent trademark dilution of its name. The two sides never came to an agreement about the domain name and NBC Universal submitted the dispute to a WIPO arbitral panel. The panel ruled in favor of NBC Universal, finding that Kwon registered the domain name in bad faith.

Kwon appealed the panel decision in a Korean court. The Korean court ruled in favor of Kwon, overturning the WIPO panel's decision. NBC filed a separate suit in the United States.

NBC Universal sued Kwon for a violation of the Anti-cybersquatting Consumer Protection Act (ACPA) and for trademark dilution under the Lanham Act. Kwon filed a motion to dismiss, arguing that the Uniform Dispute Resolution Policy (UDRP) prevented the federal court from having jurisdiction over the dispute, and even if proper jurisdiction were found, the court should abstain from ruling on the controversy because of the principle of Res Judicata.

In response to Kwon's motion for summary judgment, federal District Judge Leonie Brinkema found that the UDRP did not preclude the court from hearing the case. The UDRP simply recommends that a court should give deference to an arbitral decision.

Judge Brinkema also held that the principle of Res Judicata did not apply to this case, because the action in Korea was an "in personam" action, while NBC Universal's suit was an "in rem" action. In addition, Judge Brinkema noted that U.S. trademark laws protect important public policies and therefore the court had a "strong interest" in the resolution of these issues.

Accordingly, Judge Brinkema denied Kwon's motion to dismiss.

NBC Universal was represented by John F. Anderson of Troutman Sanders in McLean, Virginia. (HK)

NBC Universal, Inc. v. NBCUniversal.com, 378 F.Supp.2d 715, 2005 U.S. Dist. LEXIS 19314 (E.D. Va. 2005)

DEPARTMENTS

Email to the Editor:

In the August issue of the *Entertainment Law Reporter*, you published an article – ending with an algorithm (did you apply for a patent? :-)) – on how to deal with *Grokster*. (ELR 27:3:7)

I will argue that an earlier paragraph in your article makes the algorithm moot and makes the decision much more a victory for the technology industry.

You write: “The likely consequences 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.”

It’s actually nothing, because as you say: “Now, distributors will have to depend on potential users learning these things from others.” This is extremely trivial, given the endless numbers of global spanning discussion groups on the Internet, and not even necessary. By that I mean that a trusted employee of the product distributor can sign up for an anonymous remailer account (e.g., www.findnot.com), and freely and anonymously distribute to the world all sorts of information on how to infringe copyrights with the product. Or some young hacker employee of the company can quit, and anonymously or not, rebroadcast to the world instructions on how to alter the source code of the product to infringe.

There are endless ways to circumvent the *Grokster* decision. It will do nothing to alter the battle. It will lead to silly things like a company having a Web page with the following HTML:

DONT Use our program to infringe copyrights.”

DONT Alter line 21 of our program that checks for copyright.

DONT Change the headers of copyrighted files being transmitted.

The company can quite clearly argue that it is very actively encouraging people to not infringe, while its users set up their Web browsers to filter out the DONT, leaving:

Use our program to infringe copyrights.

Alter lines 21 of our program that checks for copyright.

Change the headers of copyrighted files being transmitted.

The Supreme Court doesn’t know enough about science and technology for most of its decisions involving science and technology. This is clearly evident in the silliness of what it suggests in *Grokster*.

Greg Aharonian

Editor/Publisher

Internet Patent News Service

<http://www.patenting-art.com/clients/patnews.htm>

Entertainment Lawyer News:

Robert Jesuele joins Hogan & Hartson. Robert R. Jesuele has joined Hogan & Hartson as a partner in the firm’s Los Angeles office. Jesuele is an international entertainment transactional lawyer who brings to the firm nearly 20 years of experience handling cross-border transactions on behalf of clients in the media and other industries. He represents major U.S., European, and Asian media, entertainment, and other companies in a variety of corporate, commercial, and intellectual property matters, including joint ventures, equity investments and debt financings, mergers and acquisitions, licensing and distribution transactions, reorganizations, secured transactions, and securities offerings. Jesuele has significant experience advising on entertainment transactions including international film co-productions, co-financings and split-rights deals; motion picture slate financings; film and television licensing and distribution; digital media transactions including video-on-demand; and the purchase and sale of film and television libraries and other intellectual property rights. He regularly represents clients in motion picture and literary rights acquisitions; advises on studio and independent film financing, production and distribution and copyright protection; and negotiates writer, producer, talent, and merchandising deals. His representation of French entertainment companies and German media funds doing business in Hollywood is expected to complement the firm’s existing media practices in Paris and Berlin. For the past 15 years, Jesuele was at the Los Angeles office of another prominent international law firm, most recently serving as co-chair of that firm’s entertainment and media practice. Jesuele received his undergraduate degree in business finance from Loyola Marymount University and his law degree from Loyola Law School. He is admitted to practice in California.

Ian Ballon joins Greenberg Traurig. Ian C. Ballon has joined Greenberg Traurig as a shareholder. Ballon is an intellectual property attorney and an authority on Internet law and e-commerce law. He is the author of *E-Commerce and Internet Law: A Legal Treatise With Forms* (published by LegalWorks/West). Ballon's clients include e-Bay, Knight-Ridder (and its chain of national newspapers including *The San Jose Mercury News*), Fujitsu America, The San Jose Sharks NHL hockey team, EMI Records, Twentieth Century Fox Film Corporation and Universal Studios. At Greenberg Traurig, Ballon will continue to represent entertainment, technology and media companies in digital copyright, trade secret, trademark, domain name, database and Internet-related litigation and counseling. Ballon will split his time between Palo Alto and Los Angeles and will be resident in Greenberg Traurig's offices in both cities. Ballon has served as lead counsel to major companies in matters involving issues such as copyright fair use, the proper application of the Digital Millennium Copyright Act to conduct on the Internet, secondary copyright and trademark liability, source code infringement, trade secret misappropriation, wrongful diversion of Internet traffic, unfair competition in cyberspace, domain name infringement, dilution and cybersquatting, phishing and pharming, violations of the CAN-SPAM Act and privacy and security. He also has represented clients in numerous cases brought against anonymous and pseudonymous tortfeasors and infringers. He is the featured speaker at the annual CEB/State Bar of California program "Ballon on Intellectual Property and Internet Law and Litigation Strategy," which is held each January in San Francisco and Los Angeles. Ballon currently serves as executive director of the Stanford University Law School Center for E-Commerce which is designed to provide a forum for scholars, policymakers and business executives to exchange ideas and discuss emerging issues in electronic commerce law. He has served as an advisor to the American Law Institute's International Intellectual Property Jurisdiction Project since 2002 and is a member of the Grammy Foundation's Entertainment Law Initiative Advisory Committee. Ballon comes to Greenberg Traurig from Manatt Phelps & Phillips where he was co-chair of that firm's Intellectual Property & Internet practice group. He graduated with honors in 1986 from The George Washington University National Law Center, where he was Articles Editor of *The George Washington Journal of International Law and Economics*, and he has an LL.M in international and comparative law from Georgetown University Law Center.

In the Law Reviews:

COMPUTER AND TELECOMMUNICATIONS LAW REVIEW, published by Sweet and Maxwell, www.sweetandmaxwell.co.uk, has issued Volume 11, Issue 7 with the following articles:

DVD Pirates are Meeting Their Match by The Industry Trust for IP Awareness, 11 Computer and Telecommunications Law Review 209 (2005) (for website, see above)

Internet, the Final Frontier: A Review of the "TV Without Frontiers" Directive by Johanna Pimentel, 11 Computer and Telecommunications Law Review 213 (2005) (for website, see above)

Limitations on Liability of Intermediaries-DTI Consultation by Rico Calleja, 11 Computer and Telecommunications Law Review 219 (2005) (for website, see above)

Technology Section: Weblogs by Mark Taylor and Diana Chu, 11 Computer and Telecommunications Law Review 228 (2005) (for website, see above)

The Impact of Electronic Discovery on Privilege and the Applicability of the Electronic Communications Privacy Act by Sasha K. Danna, 38 Loyola of Los Angeles Law Review (2005)

Must the Children Be Sacrificed: The Tension Between Emerging Imaging Technology, Free Speech and Protecting Children by Richard Bernstein, 31 Rutgers Computer & Technology Law Journal 406 (2005)

The Prodigal "Son" Returns: An Assessment of Current "Son of Sam" Laws and the Reality of the Online Murderabilia Marketplace by Suna Chang, 31 Rutgers Computer & Technology Law Journal 430 (2005)

Internet Defamation: Where Must a Defendant Defend? by Madhu Boel, 17/11 Intellectual Property & Technology Law Journal 15 (2005) (edited by Weil, Gotshal & Manges and published by Aspen Publishers)

National Hockey League Players' Association v. Plymouth Whalers Hockey Club: Antitrust's Rule of Reason and the Van Ryn Rule, 50 The Wayne Law Review 1277 (2004)

THE EUROPEAN INTELLECTUAL PROPERTY REVIEW, www.sweetandmaxwell.co.uk, has published Volume 27, Issue 11 with the following articles:

Christo's Gates and the Meaning of Art: Lessons for the Law by Leslie Kim Treiger-Bar-Am, 27/11 European Intellectual Property Review 389 (2005) (for website, see above)

Confidence, Privacy and Human Rights: English Law in the Twenty-first Century by Lorna Brazell, 27/11 European Intellectual Property Review 405 (2005) (for website, see above)

Rewinding Sony: An Inducement Theory of Secondary Liability by Rebecca Giblin-Chen, 27/11 European Intellectual Property Review 428 (2005) (for website, see above)

To Dilute Your Trade Mark-Just Add Parody by Daniel Greenberg, 27/11 European Intellectual Property Review 436 (2005) (for website, see above)

Book Review: Trade Mark Use by James Tumbridge, Christopher Stothers and Charlotte Jacobsen, 27/11 European Intellectual Property Review 439 (2005) (for website, see above)

Book Review: Copyright and Human Rights: Freedom of Expression-Intellectual Property-Privacy and Copyright and Free Speech: Comparative and International Analyses by Ronan Deazley, 27/11 European Intellectual Property Review 440 (2005) (for website, see above)

Educational Programs Calendar:

Brave New World: Representing Clients in an Evolving and Regulated Environment, Thursday, January 26, 2006, 2 p.m. - 7:45 p.m., Southwestern Law School, Los Angeles. Sponsored by the Southwestern Law School Donald E. Biederman Entertainment and Media Law Institute and the Media Law Resource Center, the program presents panels of experienced entertainment lawyers discussing To Clear or Not to Clear: Product Uses in Film and Television; Let's Make a Deal: Brand Integration Transactions and Beyond; Big Brother Really is Watching: Wardrobe Malfunctions and Other Indecency Concerns; Surviving the Matrix: and Legal Pitfalls of Blurring Fact and Fiction. For additional information, contact Tamara Moore of the Biederman Entertainment & Media Law Institute at 213-738-6602 or institute@swlaw.edu.

Entertainment Law Year in Review, Thursday, January 26, 2006, at 11:45 a.m., Intellectual Property & Entertainment Law Section of the Los Angeles County Bar Association. Professor Lon Sobel, Professor & Director of UK Summer Abroad Program, Southwestern University School of Law, and Editor of the ENTERTAINMENT LAW REPORTER will discuss recent developments in entertainment law that promise to shape existing business models, transactional arrangements, and litigation tactics employed by the entertainment industry, including: policy issues affecting the very nature of the entertainment business, including peer-to-peer copyright liability (in the U.S. and abroad) and digital TV/broadcast flag regulation; constitutional issues concerning the validity of recent Copyright Act Amendments; copyright protection for photographs (in a wide variety of contexts) and pre-1972 sound recordings under state law; right of publicity issues; copyright litigation issues, including standing of screenwriters to bring lawsuits for infringement of work-made-for-hire scripts and punitive damages for copyright infringement; and practice of law issues, including disqualification of law firms on account of prior representation of adverse party and attorneys (and managers) fees. For information, call (213) 896-6453.

11th Annual International Trade Marks and Designs: The Latest Developments & the Most Successful Strategies for Registering and Protecting Your Trade Marks & Designs, Monday-Tuesday, February 14-15, 2006 at the Millennium, Knightsbridge, UK. Presented by the Institute of Trade Mark Attorneys, Field Fisher Waterhouse and Thomson: Sweet & Maxwell, the program examines The USPTO and the Madrid System; Trade Mark Protection in the United States: Tips & Traps; Recent ECJ/CFI Cases: How They Will Affect Your IP; Don't Let It Happen-Make It Happen! How, Why, When & Where IP Conflicts Can Be Better Resolved Through Mediation; Beauty Transformed to Ugliness: Co-Existence Agreements in Modern Trade Mark Practice; Successful Strategies and Remaining Barriers in Combating Counterfeiting; UK Patent Office Update; Registrability and Distinctive Character: Distinctiveness Translate into Protection; Designs for the Trade Mark Practitioner; Recent Developments at OHIM; Public Policy and Morality in Trade Marks; Justice and Retribution: Suing Infringers; Managing an IP Portfolio: Maximising Asset Value; Your Trade Mark: Use It or Lose It!; Trade Marks in Cyberspace; and Drafting Successful Madrid Agreement and Madrid Protocol Applications. For further information, call +44 20 7878 6888 or on the web at www.C5-Online.com/trademarks.